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S. HRG. 111–381

TASK FORCE HEARINGS

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
UNITED STATES SENATE

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

October 29, 2009-PERFORMANCE-INFORMED BUDGETING: OPPORTUNITIES TO REDUCE COST AND IMPROVE SERVICE

November 10, 2009-BIPARTISAN PROCESS PROPOSAL FOR LONG-TERM FISCAL STABILITY

December 10, 2009-DATA-DRIVEN PERFORMANCE: USING TECHNOLOGY TO DELIVER RESULTS

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PERFORMANCE-INFORMED BUDGETING: OPPORTUNITIES TO REDUCE COST AND IMPROVE SERVICE

THURSDAY, OCTOBER 29, 2009

U.S. SENATE,
COMMITTEE ON THE BUDGET AND THE TASK FORCE ON GOVERNMENT PERFORMANCE,
Washington, DC.

The Committee met, pursuant to notice, at 10:02 a.m., in room SD–608, Dirksen Senate Office Building, Hon. Kent Conrad, Chairman (ex officio), and Hon. Mark Warner, Chairman of the Task Force, presiding.

Present: Senators Conrad, Warner, Nelson, Cardin, Whitehouse, Bunning, and Ensign.

Staff present: Mary Ann Naylor, Majority Staff Director; and Cheri Reidy, Minority Staff Director.

OPENING STATEMENT OF CHAIRMAN CONRAD

Chairman CONRAD. The hearing will come to order. Welcome, all.

Today's hearing will examine the issue of performance budgeting, a topic that this Committee has a special interest in. As Chairman of the Budget Committee, several months ago Senator Whitehouse came to me and said, Senator, we have talked before about the need to have greater oversight and to try to focus on things that would improve the overall operations of the Federal Government. It is very clear to members of this Committee that insufficient time has been spent on oversight on how the Government performs its function. How can it improve? How can we affect efficiency throughout the Federal Government?

And Senator Whitehouse had the idea to form a Task Force of this Committee to focus on these issues. More than that, he also recommended that Senator Warner be made the head of this Task Force based on his extraordinary performance as Governor of Virginia.

I thought this was an exceptionally good idea of Senator Whitehouse's, and I thought his suggestion that Senator Warner lead the Task Force was not only gracious on his part but right on point, because all of us who watched Governor Warner when he was Governor of Virginia—we were close by following the way he conducted himself as Governor—recognized that he has the background in both the public and private sector to bring real experience and real skills to this job.

And so we have put in place a Task Force on Government Performance that will be led by Senator Warner, and Senator Whitehouse and Senator Cardin on our side will serve. And I also want to thank very much Senator Gregg, the Ranking Member of this Committee, for his gracious and helpful agreement to go forward with the Task Force on Government Performance.

We all know that our Government and our country faces very tough choices, and choices that we are going to need to make soon. Performance information can aid us in making those decisions and making them in a way that makes the most sense.

Senator Warner, as I said, has the right experience and background for this job. As Governor of Virginia, he successfully used performance metrics and other private sector best practices to transform Virginia into a model State in terms of management. TIME magazine named him one of America's five best Governors. In one notable example, Senator Warner led the development of a centralized procurement system now used by over 500 State and local agencies that has driven lower, more competitive prices and generated more than $218 million in cumulative savings for the State. We are fortunate to have Senator Warner's experience on the Budget Committee.

I also want to thank the other members of the Task Force, as I indicated, Senators Cardin and Whitehouse on our side, and I am very grateful to Senator Bunning and Senator Crapo who have agreed to serve on the Republican side. And I again want to thank Senator Gregg for all he did to make this Task Force a reality.

I would like to also welcome our first witness today, Jeffrey Zients, Deputy Director of Management and the Chief Performance Officer at OMB, an outstanding selection by President Obama, I might add. I look forward to hearing about the administration's plans for performance budgeting and how this Committee can assist you in the effort.

In addition, we want to welcome Sir Michael Barber, a partner at McKinsey & Company and, before that, the head of British Prime Minister Tony Blair's very successful delivery unity. And, finally, Dr. Paul Posner, the Director of Public Administration at George Mason University, well known to this Committee for his many years of service at the GAO—that is, the Government Accountability Office—working on budget issues where he enjoyed a very good reputation, and we are delighted that he is here as well.

Let me stop there and turn to Senator Warner, who is going to be running this Task Force. He is going to be chairing this hearing. This Task Force is going to be under his leadership, and I again want to thank the Republican side as well and especially thank Senator Bunning, who is here today, who will be an important member of this Task Force as well.

With that, I am going to turn the gavel and the chair over to the Senator Warner, thank the witnesses for being here, thank him for his leadership. We deeply appreciate it.

OPENING STATEMENT OF SENATOR WARNER

Senator WARNER. Thank you, Chairman Conrad. Thank you for this opportunity. I thank Senator Whitehouse for his good idea and willingness to suggest me as someone who could take a lead on

this. I also want to thank Senator Bunning. I know this is an issue that is terribly important to him as well.

You know, this is our first meeting of the Task Force on Government Performance, and I again want to thank the Chairman and the Ranking Member not only for giving us this opportunity, but for a first-rate staff who have been working diligently over the last couple of months to get ready not only for this first hearing but for the ensuing actions that I think we will be taking.

The Chairman has outlined our panels today: Jeff Zients, the President's Chief Performance Officer; and then Sir Michael Barber and Dr. Paul Posner, who will be on a second panel.

I want to make a couple opening comments, and then I will turn to Senator Bunning and Senator Whitehouse if they want to make any opening comments.

Anyone who has ever worked with me knows that I am kind of obsessed about performance and trying to make sure that we measure things. I have this phrase that "What gets measures gets done." That became a hallmark when I had the opportunity to serve as Governor of Virginia.

Senator Conrad was very gracious in his comments about what we are able to accomplish when I was Governor in this area. I would love to say it was all driven purely by my obsession with measurement, but it was also driven by necessity. I remember becoming elected Governor only to discover that I had inherited a $6 billion deficit on a $34 billion base. So the necessity of making changes and thinking differently was truly born of necessity. That led to a series of painful cuts in State spending.

But what we also tried to do—and I think the analogy to what we are facing now at the Federal level is similar—we turned this budget shortfall and crisis into an opportunity to reexamine how we spent our taxpayer dollars. We started to think differently about budget planning, about measuring performance. We set broad policy goals, and then we started to look across agency lines and use these policy goals to gauge how we were spending and what we were accomplishing.

Senator Conrad made mention of some of the recognition we received. The thing I was proudest of was the fact that Virginia was recognized as the best managed State in the country for these efforts. And Virginia was also recognized by three or four outside sources as the best State for business. Oftentimes that best State for business was reflected based upon our prioritization in terms of State spending.

I think some of those lessons that took place in Virginia—and for that matter, in other States across the country—can be brought here to Washington. And the Budget Committee under the Chairman's leadership is the place do it.

I think we all know over the past 60 years Presidents of both parties usually early on in their administration announced some level of management review or Government performance project, usually with great fanfare in the early days of the administration, and then these efforts often fade into the past. Well, our hope is that while this has been a focus of the executive branch of Government, there is a very valuable role that the legislative branch can

play as well in making sure that these efforts do not fade into obscurity.

For instance, the Government Performance and Results Act—this was started under President Clinton—asked each agency to lay out their goals and report the progress each year they make toward their goals. I was actually, with the help of staff, just recently looking at the 2008 USDA Performance and Accountablility Report. You can see a fairly weighty tome based upon their GPRA efforts, clearly a lot of information. I sometimes think that we could do with a little less reporting and a little more focus on more valuable data. But as we have pointed out, in the area of food safety, there are literally 17 different programs that cross a series of agencies and areas.

Food Safety

Department / Agency	Number of Programs
Agriculture	8
Commerce	1
Environmental Protection Agency	1
Federal Trade Commission	1
Health and Human Services	4
Homeland Security	1
Treasury	1
Total	17

Sources: GAO and CRS

We looked a little bit deeper under one goal in food safety that I think is important to all of us. The policy goal was to reduce the incidence of foodborne illness related to meat, poultry, and egg products in the United States.

Strategic Goal 4: Enhance Protection and Safety of the Nation's Agriculture and Food Supply

Objective 4.1: **Reduce the Incidence of Foodborne Illnesses Related to Meat, Poultry, and Egg Products in the U.S.**

Measure 4.1.3: **Reduce the Overall Public Exposure to E. Coli 0157:H7 in Ground Beef**

Annual Performance Goal	FY 2007	FY 2008 Target	FY 2008 Actual	FY 2008 Result
Reduce the overall public exposure to E. coli 0157:H7 in ground beef	0.28%	0.23%	0.48%	Unmet

Source: USDA FY 2008 Performance and Accountability Report

Well, we got a lot of results, but what we showed here was while they made progress on poultry, the overall exposure of the public in E. coli in terms of beef actually went up from 2007 to 2008. Well, this is great data, but what came out of this data was there was nothing that said, Well, what are we going to do about it? How are we going to take this data and then actually turn it into productive, corrective action?

Well, my belief is, particularly, that part of our role on the Budget Committee is to make sure that this voluminous amount of information just does not go down a black hole and that we actually ask these questions. And I think from the Budget Committee's perspective, we have an opportunity to think differently about performance, to look across agency lines, to look at specific policy areas, and to examine the various programs that might be gauged toward that specific policy goal, but too often have very little coordination.

I can again recall as Governor one of the most frustrating areas that I found was how we could try to right-size and rationalize Government training. I found at a State level we had a variety of different programs about employment and training. They were all siloed. And too often, as we tried to rationalize that approach, we found that the funding streams all led to Washington, and there was actually no collaboration at all.

For example, in employment and training, we have 44 Federal programs in nine departments, and in fiscal year 2002, just within employment and training we spent $12 billion and served more than 30 million participants.

Employment and Training

Department / Agency	Number of Programs
Agriculture	1
Defense	1
Education	13
Health and Human Services	6
Housing and Urban Development	1
Interior	3
Justice	1
Labor	17
Treasury	3
Veterans	1
Total	47

Sources: GAO and CRS

Well, that is great information. But amongst these 47 programs, there has been no analysis, to my mind at least, that shows how do these programs compare, and how could we actually look at perhaps collapsing some of these programs to get a more effective bang for our dollar.

We need to start asking the right questions, and, again, I would hope that part of the efforts we could do going forward is not only look at the data that we collect, but perhaps looking—and this might be of great service not only from our first witness but to the Government employees who collect all this data—how we might actually eliminate some of the data collection and focus more tightly on the appropriate data collected in the right way.

Now, Chairman Conrad mentioned as well, Why do we want to do this? Well, partially, we want to do it, obviously, to have better performance but, and I know this is something that Senator Bunning will, I am sure, speak to, we want to save money. There is enormous duplication and repetition.

Chairman Conrad mentioned the fact that in Virginia, by leveraging our purchasing power, we were able to save over $200 million. Sometimes these numbers get lost, and that seemed like a lot at the State level. When you get to the Federal level, the numbers even become much larger.

The way I used to explain this to folks in Virginia, by leveraging our purchasing power we were able to lower the price of our light bulbs from 32 cents to 23 cents. Now, that did not close the $6 billion shortfall, but we buy an awful lot of light bulbs at a State level. That same type of leveraging our purchasing power across the Federal level I think could have similar results, if not greater.

So let us now get to our witnesses. I know we are going to hear from Jeffrey Zients in a few moments. He is the Deputy Director of Management for OMB. He is the Chief Performance Officer. I have known Mr. Zients for years in the private business area. I think the President made a great selection in choosing him. We will be hearing from him in a few moments, and then we will be hearing from our second panel. But, again, I want to thank the Chairman for giving me this opportunity, and I believe we will now hear from Senator Bunning.

OPENING STATEMENT OF SENATOR BUNNING

Senator BUNNING. Thank you, Mr. Chairman and Senator Conrad and Senator Whitehouse.

First of all, I would like to thank Senators Warner, Conrad, and Gregg for forming the Task Force on Government Performance. We have a lot of work to do on this subject.

I would also like to thank the witnesses that will be here today for taking part and taking their time to come to appear here. Their input and advice in this process is much appreciated.

This is one of the most important things that this Committee and these Senators can do. It is unfortunate but true that there is a general perception among the American people that we do not spend their money well. We owe it to them to see that they get the most for their tax dollars. I am hoping that this Task Force will be able to help us learn what Government is doing right and what it is doing wrong. That is why I joined the Task Force.

We do have some significant obstacles to our goals of devising a comprehensive system of evaluating the performance of Government programs. The three previous administrations have all attempted to tackle the problem of performance evaluation. During the Clinton administration, there was the National Partnership for Reinventing Government, headed by Vice President Al Gore. The Bush administration implemented the Program Assistance Rating Tool, known as PART. Finally, earlier this month, the Obama Administration released its own plan to analyze Government performance. I look forward to hearing about this effort today firsthand from Jeffrey Zients, who will be implementing this program at the OMB.

I think this illustrates why Congress should play a large role in this process. It appears that every time there is a new administration, we get a new system of performance evaluation. The involvement of the legislative branch ensures that we have some stability in this area, even after the Presidencies have been changed. However, the most important reason to do this, hopefully, is to save money.

As I am sure just about every American knows, we are at a historical level of debt. The Federal deficit stands just shy of—it is hard for me to say it—$12 trillion. During fiscal year 2009, which ended a month ago, we racked up about $1.4 trillion in debt. Under plans put forward by the administration, the debt will double by 2013 and triple by 2019. In fact, just recently, the administration wrote to Congress asking us that we raise the debt ceiling as soon as possible because we have spent more than we have legally been allowed to do.

This should motivate us to find savings. The first undertaking of this Task Force will be to make sure we are promptly measuring the performance of Government programs. And as you saw from Senator Warner's charts, we have a lot of measurements, but we do not have any results after we get them.

It will not be easy. However, our second job might be even harder: to remove the wasteful spending that we find. It is no secret that Congress is not very good at cutting programs. Everybody has their little program, and they have their own little fiefdom, and they protect that fiefdom as well as possible. That is why it is critical that we include proper enforcement in whatever product we produce. It will do us no good if we come up with a way to identify wasteful spending but then do nothing about it.

The American people know there is waste in Government, and they expect us to do something about it. Let us make sure we do not let them down.

Thank you for being here. Thanks.

Chairman CONRAD. Let me just congratulate Senator Bunning because the Phillies, his former team, won the first game of the World Series last night and did it in fine fashion. And I know he is going to be there, and I think he is going to be throwing out the first pitch in one of the games coming up in Philadelphia, and I am going to look forward to that as well. So that was a great night.

I also want to again say how much I appreciate Senator Warner's taking the lead on this Task Force. I want to thank again Senator Whitehouse for his idea that this Task Force be formed. I think it is critically important. And with that, I want to hand the gavel formally to Senator Warner.

Senator WARNER. Thank you, Mr. Chairman.

Senator Whitehouse.

OPENING STATEMENT OF SENATOR WHITEHOUSE

Senator WHITEHOUSE. Mr. Chairman, first of all, let me thank you for your kind words and let you know that it will come as no surprise to my wife and family that I have been able to think up an idea that involves other people doing more work.

[Laughter.]

Senator WHITEHOUSE. I want to thank particularly Chairman Conrad for his leadership on this. It is one thing to come up with an idea. It is another thing to organize it, put the staff behind it, and harness the considerable energies of our friend Senator Warner toward that purpose. So my immense gratitude to Senator Conrad and to Senator Warner for taking up this charge.

I know that some of what we do is not going to be very thrilling. We will end up in sort of dull corridors of governmental endeavor, like H.R. and IT and procurement. But I do hope that real savings and real efficiencies will result, and I hope that we will get to the point where we are able, in future budgets, to actually identify by line item performance savings. I think that might be a good metric for this Task Force to shoot for.

So, without further ado, I see Senator Cardin has arrived, but I did want to thank both of you for this, and I thank Senator Bunning and Senator Crapo for participating. I hope this will be

a Committee that works in strong, technical, hard-working, bipartisan fashion.

Chairman CONRAD. If I could just say, Senator Cardin has joined us now. He is the third member of the Task Force on our side, and we selected Senator Cardin because he is somebody that knows with great experience the functionings of Government. He has served with distinction in the House. He has served with distinction in his home State as a legislative leader, and we are delighted to have him in the U.S. Senate.

One of the things you learn about Senator Cardin, he does not do things without really digging in and drilling down, and that is exactly what we need on this Task Force. We are delighted that he agreed to serve on it.

Senator Cardin.

OPENING STATEMENT OF SENATOR CARDIN

Senator CARDIN. Well, I am glad I came by for that introduction. That was worth my morning. Let me thank you and the Ranking Member for putting together this Task Force and certainly thank Senator Warner for his leadership on this. He has been working with all of us to try to focus us on areas where we can really make a difference on Government efficiency.

Mr. Chairman, this may not be a glorious area in which to work, but we all know that we can do a much better job on efficiency, and we can do it without compromising the services that the people of this Nation need and deserve.

I think we all are anxious to really understand this area better. One of the problems is the Federal Government is so big. It is just huge. And we all divide our time in such a way that we want to get involved in policy issues, and we want to do things that can make a difference for the people of our State and our Nation. We can all contribute to that result by figuring out how Government can operate more efficiently and more accountably. I hope that will be the result of this work, and I look forward to hearing from our witnesses.

Senator WARNER. With that, we will have our first witness, Deputy Director of OMB and Chief Performance Officer for President Obama, my friend Jeffrey Zients. Jeff.

STATEMENT OF THE HONORABLE JEFFREY D. ZIENTS, DEPUTY DIRECTOR FOR MANAGEMENT AND CHIEF PERFORMANCE OFFICER, OFFICE OF MANAGEMENT AND BUDGET

Mr. ZIENTS. Thank you, Chairman and members of the Committee. I appreciate the opportunity to be here today, and I applaud the Task Force coming together and look forward to working closely with all of you.

The President believes that it is more important than ever to maximize the effectiveness of every tax dollar we spend. When programs work, we should support them and continue to push for improved performance. When they do not work, we need to fix them or end them. To accomplish this, we need to measure the performance of programs and continually search for more effective and efficient ways to operate and save money.

During my 20 years in the private sector, as a CEO and adviser to CEOs, I found that leadership measurement and a motivated work force create the foundation for good performance. I am confident the same is true here in Government.

Congress and previous administrations laid some of the ground work for govermentwide performance management, including the Clinton administration's GPRA and the Bush administration's PART. The result is that today we have thousands of metrics and plans.

I believe the test of a performance management system is whether it is actually used. Despite the extent and breadth of these historic efforts, the current system fails this test. Congress does not use it. Agencies do not use it. And the public does not have meaningful information.

There is too much focus on process and not enough focus on outcomes. You do not track progress on goals that cut across agencies. Overall, too much emphasis has been placed on producing performance information to comply with a checklist of requirements.

Senator Warner and I repeat over and over: what gets measured gets done. At the same time, to measure everything is to measure nothing. This must change. Federal managers and employees at all levels must use performance goals and measures to set priorities, monitor progress, and diagnose problems. We can build on the promising performance management developments in State and local governments and other countries. The Virginia Performs website shows how government can clearly communicate State performance priorities, track progress against goals, and make these results transparent to the public. Local governments—New York City and Baltimore and others—have effectively used performance management practices to improve outcomes and drive down costs. Other countries, including the United Kingdom, offer instructive lessons.

We are committed to taking the best of what works elsewhere—in other governments, in the private sector, and within our own four walls—to create a new performance management system. This system will be a foundation of our efforts to improve the efficiency and effectiveness of the Federal Government.

As we develop the new system, there are five key principles we will follow.

First, senior leader ownership. It is critical that senior agency leaders own the overall performance management process and their agency goals and measurements. Secretaries and Deputies will be charged with the setting of the agency goals, and they will be held responsible for performance against these goals.

Second, cascading goals. A clear line must link agencies' strategic goals and measurements to program level and individual targets.

Third, outcome-oriented, cross-agency targets. Outcome-oriented goals and measures connect Government agencies to their missions. Similarly, achieving broad Government outcomes often requires contributions, as we saw on those charts, from multiple actors across different agencies.

Fourth, relentless review. Measurement has no value if it is not used. Clear communication of progress against targets and fre-

quent reviews of performance against plans are essentials. These reviews must be performed at all levels of Government.

Fifth, and last, transparency. Achieving important Government goals requires the active engagement of Congress, the public, and the overall Government work force. Transparency plays a critical role in holding our feet to the fire—accountability—and in creating innovation and new ideas.

Using these five principles, the administration is committed to driving performance gains across the Federal Government. We have already begun to move forward. In this year's spring budget guidance, OMB asked every major agency to identify a small number of outcome-oriented, high-priority goals which they intend to achieve in the next 12 to 24 months. Senior leaders are actively involved in this effort. Secretaries and Deputy Secretaries are fully scrubbed in. This level of involvement is a significant break from the past. Agency leaders will review their progress against these goals on an ongoing basis.

Agencies have also identified goals, such as climate change and homelessness, that are a high priority for multiple agencies and require close collaboration across agencies.

In June, we launched the IT Dashboard, which displays cost and schedule variants for every major Federal IT program or project. The IT Dashboard is already having an impact. The VA has put 45 over-budget and/or behind-schedule projects on hold until it decides whether those projects should continue with new plans or be terminated altogether. We plan to roll out similar dashboards across other functional areas.

In September, the United States Citizenship and Immigration Service set up a system that allows applicants to see their status via the Web or via e-mail updates, and they can see the processing time of their case compared to the processing time of other people's cases. This makes a notoriously opaque and slow process much more transparent. We are encouraging agencies to identify other service areas that can benefit from similar customer-facing systems.

For certain types of programs, measurement alone is not sufficient. These programs require periodic in-depth evaluation to determine their effectiveness. On October 7th, OMB encouraged Federal agencies to request fiscal year 2011 funding to conduct significant evaluations and strengthen their own agency evaluation capacity.

Among the Obama Administration's Cabinet and sub-Cabinet appointments are several former colleagues of then-Governor Warner, Governors and State officials who have experience using performance goals and measures to drive Government performance. We are enlisting them and other leaders across the Federal agencies to work together as a vanguard for Federal performance management with particular emphasis on adopting the best practices from State and local governments to create performance management systems that are used daily.

As we move forward, we will also identify measurement efforts that are not used and are burdensome. We will either eliminate them altogether or streamline them. This will include making the performance and accountability reports more useful by scaling back their hundreds of pages of work per agency per year.

OMB is using performance information to inform the budget decisions. The President's fiscal year 2010 budget proposed reduced funding or termination of 121 programs. Agency goals and relevant performance information are informing our internal fiscal year 2011 budget discussions.

Overall, across the last several months, I believe we have made progress in setting up a new performance management system, and we have begun to pilot key parts of it. That said, we are just at the beginning. We have a lot of work to do to put in place a system that is used by senior decisionmakers across Government to make decisions.

As we undertake these efforts, we would love to work with you, and to make sure that the information that you receive from agencies is useful. We look forward to partnering with you as we learn more about the Committee's performance improvement priorities. In particular—and the charts would support this—we believe we have a unique perspective for examining how the Government can more effectively achieve broad goals that cut across agency borders.

I thank the Committee for holding the hearing and for hosting me here today. I look forward to working with you to accomplish our mutual objectives, and I look forward to answering any questions you may have.

[The prepared statement of Mr. Zients follows:]

Statement of Jeffrey D. Zients
Chief Performance Officer and Deputy Director for Management
Office of Management and Budget
Before the Budget Committee
United States Senate
October 29, 2009

Chairman Conrad, Ranking Member Gregg, and Members of the Committee:

I appreciate the opportunity to come before you today to discuss the Obama Administration's efforts to improve the performance of the Federal government. In particular, I applaud the Committee's efforts to form a new Task Force on Government Performance and look forward to working with you.

The President believes that it more important than ever to maximize the effectiveness of every tax dollar we spend. We must be aggressive in identifying which programs work, and which do not. When programs work, we should support them and continue to push for improved performance. When they do not, we need to reform or terminate them. To accomplish this, we need to measure the performance of programs and continually search for more effective and efficient ways to operate.

During my 20 years in the private sector as a CEO and advisor to CEOs, I found that leadership, measurement, and a motivated workforce create the foundation for good performance. I am confident that the same is true in government.

Congress and previous Administrations laid some of the groundwork for government-wide performance management, starting with the Clinton Administration's implementation of the Government Performance and Results Act (GPRA). The Program Assessment Rating Tool (PART) developed by the Bush Administration tried to create metrics at the program level. The result is that today we have thousands of metrics and plans in a number of overlapping systems.

The test of a performance management system is whether it is used. Despite the extent and breadth of these historic efforts, the current approach fails this test. Congress doesn't use it. Agencies don't use it. And it doesn't produce meaningful information for the public.

Most metrics are process-oriented and not outcomes-based. We do not track progress on goals that cut across agencies. Overall, too much emphasis has been placed on producing performance information to comply with a checklist of requirements instead of using it to drive change.

This must change. Federal managers and employees at all levels must use performance goals and measures to set priorities, monitor progress, and diagnose problems. They must learn from practices that work and those that do not. They need to learn how to use goals and measures to motivate the best from our workforce and our service delivery partners to achieve greater results and to allocate scarce resources wisely.

We can build on promising performance management developments in State and local governments and other countries. The State of Virginia's *Virginia Performs* website shows how government can clearly communicate state performance priorities, progress, problems, and strategies to the public. Washington's Government Management Accountability and Performance program and Maryland's StateStat illustrate the value of goal-focused, data-rich discussions to find the root causes of problems and to devise smarter strategies to tackle them. Local governments, including New York City; Baltimore, Maryland; and King County, Washington have effectively used performance management practices to improve outcomes, reducing crime and increasing housing starts for example, and drive down costs. Other countries, including the United Kingdom and New Zealand, offer instructive lessons.

As the Administration develops this performance management system, we are committed to taking the best of what works – in other governments, the private sector and recent Federal efforts – to create a new performance management system. This system will at the foundation of our efforts to improve the efficiency and effectiveness of the Federal government. In developing this performance management system, there are five key principles we will follow:

1) **Senior leader ownership of performance management process.** It is critical that senior agency leaders "own" the overall performance management process and their agency goals and measurements. Secretaries and Deputies will be charged with the setting of agency goals, will be held responsible for performance against those goals and their related measurements and will be expected to be actively engaged in all aspects of the performance management process.

2) **Cascading goals and measurements.** A clear line must link agency strategic goals and measurements to unit-level, program-level and ultimately individual targets. Unfortunately, few agencies have historically had agency goals cascade down to unit or program targets or understood how performance against specific program and unit goals resulted in success – or failure – against agency-wide objectives. Both linkages are critical to the functioning of a successful performance management system.

3) **Outcome-oriented, cross-agency goals and measurements.** Outcome-oriented goals and measures connect government agencies to their missions. Too often in the past targets have been internal and process oriented. Similarly, achieving broad

government outcomes often requires contributions from multiple actors across different agencies and often inside and outside of government. Goals and measurements must support coordination across these organizational boundaries. These must also reflect clear delineation of lines of responsibility, explicitly identifying who a "goal owner" is and what other organizations are expected to contribute toward a common objective. Similarly, a given unit's measurements must reflect their differing contributions toward common goals.

4) **Relentless review and accountability.** As has been noted above, measurement has no value if it is not used by decision makers. Clear communication of progress against targets and frequent reviews of performance against plans are essential. These reviews must be performed at all levels of government, including program, unit and agency level reviews, as well as reviews by OMB and other components of the White House of overall agency performance. These reviews must be done on a regular basis, probably at least quarterly. Only this kind of relentless review process will result in performance management becoming ingrained into the culture of government.

5) **Transparent process.** Achieving important government goals requires the active engagement of the public, Congress, and the overall government workforce. Transparency plays a critical role in this engagement, promoting understanding of what we in the government are doing, stimulating idea flow and involvement of broader groups, communicating results and creating accountability for agency managers. Such transparency is therefore critical to the success of any Federal performance management system.

Using these five principles, we are committed to driving performance gains across the Federal government. This is an ambitious undertaking. However, we have already begun to move forward on several fronts.

Priority Performance Goals for Every Agency

In this year's spring budget guidance to agencies, OMB asked every major agency to identify a small number – three to eight – of ambitious, outcome-oriented high priority goals which they intend to achieve in the next 12 to 24 months. Senior leaders are actively involved in this effort, including Secretaries and Deputy Secretaries. This level of involvement is a significant break from the past. We expect agency leaders to review their progress against their goals on an ongoing basis and OMB will monitor progress here also. At the same time, agencies are identifying goals, such as climate change and homelessness, which are a high priority for multiple agencies and require close collaboration.

Management Dashboards
Management dashboards have proven an effective means for succinctly conveying real time performance data in both the private and public sectors. In June, we launched the IT Dashboard, which covers all major IT projects across government. The IT Dashboard makes it possible to review cost and schedule variance for every major Federal government IT project. The dashboard also shows how each agency's Chief Information Officer has assessed performance. The IT Dashboard is already having an impact. As a result of this effort the VA, for example, put 45 over-budget or over-schedule projects on hold until it decides which to continue and which to terminate. We plan similar dashboards for other common government functions, including procurement, financial management, and personnel management.

Customer-Facing Performance Information
We have begun using dashboards not just to improve our administrative functions, but to serve agency customers. In June, the President charged Secretary Napolitano and the team at the United States Citizenship and Immigration Services (USCIS) to set up, within 90 days, a system that allows applicants to see their application status via web or email updates, how long each step in the process normally takes, and the speed of the applicant's case compared to other similar cases. The site went live on September 24, exactly 90 days after President's announcement and makes what had been a notoriously opaque process much more transparent. We are encouraging agencies to identify other service areas which can benefit from similar customer-facing systems.

Rigorous Evaluations
For certain types of programs, regular measurement is not sufficient. These programs require periodic in-depth evaluations to determine their effectiveness. On October 7th, OMB Director Orszag encouraged Federal agencies to request FY2011 funding to conduct significant evaluations in social, educational, and economic programs as well as begin to strengthen agency evaluation capacity. He also established an inter-agency evaluation working group and instructed all Federal agencies to make evaluations of program impacts readily available online.

Performance Leadership
Dr. Shelley Metzenbaum, who joined our OMB team a month ago, is leading our performance measurement and management effort. Among the Obama Administration's Cabinet and sub-cabinet appointments are several former Governors, state officials, and local officials, who have experience using performance goals and measures to drive government change. We are enlisting them and other interested officials across Federal agencies to work together as a vanguard for Federal performance management. They are developing real-time systems for measuring their performance and managing their agencies.

As we move forward, we are also identifying current performance management requirements and systems that do not meet these principles, and will either eliminate or streamline them. This will include making the Performance and Accountability Reports more useful by scaling back their hundreds of pages per agency per year.

OMB is also using performance measures, evaluations, and other relevant data about need and program context to inform budget decisions. The President's FY 2010 Budget proposed reduced funding or the termination of 121 programs that that had not accomplished the goals set for them, that operated inefficiently, or that were unnecessary because the program objectives were being better addressed by another program. Agency goals and relevant performance information will also inform our FY2011 budget decisions.

As we undertake these efforts, we would like to work with the Budget Committee to make sure the information you receive from agencies serves you well. We look forward to partnering with you as we learn more about the Committee's performance improvement priorities. In particular, we believe you have a unique perspective for examining how the government can more effectively achieve broad goals through multiple programs that cut across agency and appropriation boundaries.

I thank the Committee for holding this hearing and for your belief in improving Federal performance. I look forward to working with you, with the other members of this panel, the newly formed Task Force, with Federal employees across the nation, and with our service delivery partners to accomplish this objective. Mr. Chairman and Members of the Committee, I would be pleased to answer any questions you may have.

Senator WARNER. Thank you, Mr. Zients, and we have been joined as well by our colleague Senator Ensign. Senator, thank you for being here as well. Since we have five of us here, we will try to do 5-minute rounds. I will get right at it.

Senator Bunning mentioned the fact that the last two administrations' GPRA and PART were both efforts that got some fanfare and perhaps made some progress. Looking at those past two administrations' efforts, were there parts of their initiatives that you have kept, parts of them that you have decided were not necessary? How do we not reinvent the wheel with the beginnings of the Obama Administration?

Mr. ZIENTS. Yes, we are in the middle of that right now, but I absolutely believe we should not throw the baby out with the bath water. There are usable, useful advances. I think there is way too much, as you have talked about and I have talked about in my comments. On PART in particular, many of the metrics were more internal or more process-oriented and not outcomes-based. We will maintain the more outcomes-based metrics.

I think the annual performance accountability reports are the right vector, but are too lengthy and too burdensome, so we will scale those back. There are some citizen reports that Interior and Education have produced which were much shorter, 25-page reports. Those are headed in the right direction.

We are committed to streamlining, becoming much more outcomes-focused, making sure that you and others find the information useful, and, most importantly, we are actually holding people accountable to the results; and when the results are not what we

hoped for them to be, the way you pointed out in your chart, we are actually doing something about it.

Senator WARNER. You said in one of your five policy goals senior leadership, ownership, and it would seem to me that one of the ways you could perhaps gain some senior leadership buy-in is actually eliminating some of the reporting requirements so they could actually take ownership of a few key measurement criteria. Have you thought in terms of either penalties or incentives to make sure that the senior leadership buys into this?

Mr. ZIENTS. I think, Senator, you are right. Given the scale of the historic efforts, almost definitionally senior leaders are not going to be engaged. So with the high-priority performance goals, we have asked for a handful by agency, generally three to eight, developed by Secretaries and Deputy Secretaries, the key management priorities for the next 12 to 24 months. We are in the process right now of making sure that those priority goals are incorporated into the fiscal year 2011 budget.

So I think for better or for worse, our starting base is that the senior team for the most part has not been involved because it has been too burdensome and it has not been a high priority. And we are starting this new administration, I believe, with a good effort to have them focus on what are truly the highest priority management objectives.

And so far so good. It is good work. We are going back and forth with agencies in a collaborative fashion to refine their goals and to make sure that they are tied to the budget.

Senator WARNER. We would obviously like to see those goals as well, so as we from the Budget Committee standpoint——

Mr. ZIENTS. Absolutely. As we exit, the deliberative process we are in right now by fiscal year 2011, we plan on making these goals transparent and available to you and to the public.

Senator WARNER. One other area I want to go into, because my time is running down—I want to make sure every member—you know, one thing I have learned as a new member, if you make sure everybody gets involved, they actually come back. So I do not want to go over my time here, but, you know, one of the comments I know we have talked about before, sometimes this stuff gets a little bit esoteric in government-speak, and I think it is terribly important that we have not only these broad management goals, but that we actually have some customer service goals.

Mr. ZIENTS. Yes.

Senator WARNER. You cited one example that I thought was important around immigration. You might want to speak to that again, and if there are other areas where we have put some low-hanging fruit where our customers, the American taxpayer and the American citizen, can actually see improved performance.

Mr. ZIENTS. Yes, I do think that we all would agree that people form their opinions of Government and the effectiveness and the efficiency of Government when they touch Government. At USCIS, that had been an area where you literally would have to engage a lawyer to figure out where you were in the process, and even then it would take probably several weeks to get an answer. Now an applicant can instantly pull up on the Web or be notified by an e-mail where he is in the process. I think that is important, but as impor-

tant, you can benchmark how your processing speed compares to like cases in different processing centers around the country. That inevitably creates accountability and also spurs innovation, and what is happening at the processing center where things are going faster or what can we learn to improve service quality and to save money.

We are looking for other areas at the VA, Education, Treasury, and elsewhere, where there are these customer-facing services, to stand up systems that not only improve the service but also provide better benchmarking and better visibility into Government performance on these customer-facing services.

Senator WARNER. So we could actually compare office to office.

Mr. ZIENTS. Yes.

Senator WARNER. Which then might have some consequences. Thank you.

Senator Bunning.

Senator BUNNING. Thank you, Mr. Chairman.

The administration's plan will rely on voluntary participation. Is that correct?

Mr. ZIENTS. Sir, what you mentioned in your earlier remarks, was a component of the plan. The component of the plan that you are referring to is to ramp up our evaluations. This is a periodic look at programs that are usually in the health or social area.

Senator BUNNING. The reason I bring that up, what incentive have you given others for a program or agency to self-assess their performance?

Mr. ZIENTS. I think all programs are going to need to be examined in this fiscal environment, and those programs the outcomes are not clear, or the return on our taxpayer dollars is not clear, will be subject to evaluation and potentially either need to be fixed or terminated if their performance does not seem appropriate or a good return on taxpayer dollars. So you are referring——

Senator BUNNING. Won't already performing programs or agencies volunteer for something like this and non-performing agencies choose not to participate?

Mr. ZIENTS. Well, the decisions will not be made at the program level. They will be made at the senior level across the——

Senator BUNNING. Well, you said you are having difficulty getting senior-level people——

Mr. ZIENTS. I think historically there has been difficulty getting senior-level people involved. We are putting a lot of effort to ensure that senior folks are involved. The areas for evaluation are coming forward from senior folks who have a view across programs, and they are picking programs where they believe there are needs for evaluation in order to understand the return on our taxpayer dollars.

So far so good, a lot of participation, and I think we are going to have a very rigorous, unprecedented level of analysis, which is required in these types of programs, to figure out whether they are working or not. Measurement alone is not——

Senator BUNNING. But didn't you mention that the first year of the administration you have recommended approximately 120 programs be reevaluated or discontinued?

Mr. ZIENTS. Yes, 121 programs in the fiscal year 2010 budget were recommended for termination.

Senator BUNNING. The Bush administration recommended well over 200. None that I know of were we able to discontinue, and I am worried about the 121 that you have recommended. You know, you have recommended it, but we sitting up here have to enact, and——

Mr. ZIENTS. Right. I think you mentioned that in your opening comments. I could not agree more. I think making sure that we work together early to ensure that we have the right kind of metrics and evaluations needed to support decisions as we make our recommendations is essential to ensuring that we actually get some of this stuff done.

Senator BUNNING. What ensures that agencies' self-evaluation of performance will be accurate? Would you consider some kind of third-party evaluation?

Mr. ZIENTS. These are not self-evaluations by any stretch. These are rigorous evaluations, often facilitated by third parties. So when we talk about evaluations here——

Senator BUNNING. In other words, you are going to seek outside help.

Mr. ZIENTS. Absolutely. These are randomized, controlled samples. These are sophisticated, rigorous, analytic evaluations of programs.

Senator BUNNING. Would you support some of us sitting up here at the table and/or this Task Force also being involved?

Mr. ZIENTS. Sure, absolutely. We would love to work together with the Committee and across Congress to understand the programs——

Senator BUNNING. If we are going to be the ones that eventually are going to have to fight off those trying to protect the program, even though it has been designated inefficient or non-performing, and try to subtract their budgets or do away with their budgets, we are going to need the cooperation of both OMB and the people sitting at this table or a lot more of us.

Mr. ZIENTS. Yes, I think that these types of evaluations create the rigorous analytics that are required to have real conclusions and——

Senator BUNNING. We have to have real facts to do it.

Mr. ZIENTS. Real facts, and with real facts, we need real cooperation to ensure we actually get it done.

Senator BUNNING. Well, thank you very much, Mr. Chairman.

Senator WARNER. You know, Senator Bunning, one of the things that I—and there is a longer tenure on this Committee than I have, but looking at the old OMB lists, sometimes they are just lists of programs that may not be that effective, but there is no interrelationship between a program that has been listed as being ineffective and how it relates to the other programs within that broad policy goal area. So the notion that——

Senator BUNNING. I think that is absolutely essential if we are going to be effective in eliminating any of them.

Senator WARNER. One of the things that we have started on from the staffing standpoint is do a little bit of policy mapping, take a

policy goal and look at—we cited employment and training and food safety——

Senator BUNNING. I like the food safety one.

Senator WARNER [continuing]. As examples where we might want to kind of dive in, the working group might want to pick—we cannot take all, but we might want to pick two or three policy areas where we would dive in for the first few months to try to get our arms around a couple of these——

Senator BUNNING. It does no good for us to find out that E. coli from 1 year to the next went up when we are evaluating it and doing nothing about fixing it.

Senator WARNER. And I would also argue that it does not do any good to say program X has been ruled by OMB not to be effective if you do not know how program X relates to the other programs within that policy area.

Senator Whitehouse?

Senator WHITEHOUSE. Thank you.

Mr. Zients, I am interested, since this is our very first formative meeting, in your thoughts about what we should be doing and what your advice is on the scope of our activities given the fact that this is a relatively small Task Force of a single Committee in one branch of the Congress looking into an enormous landscape, as Senator Cardin described, of executive agencies, boards, commissions, and so forth.

I assume that you would agree that the boring back office stuff is worth us taking a good look at having seen how much back-office efficiencies have saved in banking and retail and other industries. Is that correct?

Mr. ZIENTS. Yes.

Senator WHITEHOUSE. What would you think about looking at the role of contractors? And if we were to look at the role of contractors—I do not have a number on how much of the Federal expenditure goes out to——

Mr. ZIENTS. Over $500 billion.

Senator WHITEHOUSE. Yes, it is massive. And, again, given our scope and size, what do you think would be the high-value areas looking into contracting and contractors?

Mr. ZIENTS. I just came off a hearing yesterday on contracting with your colleagues in Homeland Security and Governmental Affairs, and it certainly is a large—over $500 billion—and complex area where I believe we can save a lot of money. $40 billion in the next couple of years is our target.

Senator WHITEHOUSE. It strikes me, just to offer a thought, that once a contract is let, we have very considerable oversight apparatus to try to keep the contractor within the scope of the contract and make sure the contractor is performing and that funding is going out appropriately, you know, that kind of stuff. But I think that we seem to have less scrutiny and judgment applied to contractors before letting of the contract; i.e., what is appropriate for a contractor to have in the first place?

Mr. ZIENTS. Yes.

Senator WHITEHOUSE. And what are the discussions that led to the decision to have that contract? And the time flow of a particular contract, are there areas where you think the Federal Gov-

ernment is good at overseeing and not so good at overseeing looked at from the whole start-to-finish process of the glimmer in somebody's eye that a contract would be a good way to act through the letting of the contract and on?

Mr. ZIENTS. Your insight is absolutely correct that getting the requirements right up front is essential, and then there needs to be good, cross-functional coordination across the life of a contract, because it goes beyond procurement to program management.

But to your question, I first, we would love to work closely with the Task Force to understand, as we go about creating this new performance management system, what your priorities are and how we make sure that we create something that is used by you to make your decisions. If we do that, we will certainly have a system that will be used elsewhere, knowing that it is ultimately going to be used by Congress to make decisions.

I think as to the particular area of focus, I believe Senator Warner is on to the right idea. I think too much of what we do is in silos, so we look at a program. And sometimes we look at a program and how it compares to other programs within an agency. Rarely do we go beyond agency lines, and so much of what we need to do to serve the American people does not exist in the silo of a program or the silo of an agency. It goes across. And employment and training are great examples. Food safety is a great example. Housing issues—foreclosures, homelessness. Picking a few of those, I think you are in a unique position to do that.

Senator WHITEHOUSE. In my last minute, let me touch on agencies, boards, and commissions that are outside the direct executive branch of Government, the so-called independents or quasi's. Should we be looking at them as well since they are part of what we fund?

Mr. ZIENTS. It is not where we have focused our initial efforts given how much we have to do and a $3 trillion Government, but that is something I think over time we should talk about.

Senator WHITEHOUSE. OK. Thank you very much.

Senator WARNER. Senator Ensign.

Senator ENSIGN. Thank you.

First of all, I want to applaud the work that you all are attempting to do. I know others have tried, and I want to encourage you to stay with it. The bureaucracies will try to beat you down, as well as the interest groups. The problem is when you have a program, you have an interest group. They want to keep their jobs, so they come up and lobby. You know, one Senator thinks, "I have to keep that program," or one Congressman, or whomever it is. So you have a huge challenge, and we know there is a lot of duplication among Government programs. We know just in job training, for instance, how many different job training programs exist. And the metrics, I think you are exactly right, the outcome metrics need to be the—really need to be something that we are looking at. It is not a question—for instance, whether a job training serves x number of people but how many people actually got jobs from the job training program. And we do not seem to look at those kinds of things today. So I would very much encourage you.

I want to take, though, maybe just a little different approach to this and even challenge you to look at some other areas dealing

with, for instance, procurement. And I have thought about this when I was on the Senate Armed Services Committee. Right now we know a lot of what happens with defense procurement. We have programs. We go out there and we pay for the research, and then somebody gets a big contract. Maybe they are the lowest bid or whatever it is, and then they get that 10-year multi-billion-dollar contract, and inevitably we know what happens. They come back to us and they say, "Well, there are cost overruns," and maybe some general wants something a little different.

And my thought is that this whole idea of going back to the X prize when folks design something, somebody put a prize out there and said, "You guys compete for these types of things." Well, what if the Government, whether it is a retrievable vehicle for NASA, whether it is the next major weapons system or whatever, that the Government decides that this is what we want the private sector to develop, these are the parameters, these are the specifics of the program or the weapons system. And you put it out there and let the private sector put their capital at risk, and when within that, if they meet that, then they get the contract. But not just there. Maybe they get 70 percent of the contract and second place gets 30 percent of the contract, and in 2 years you are going to reevaluate so that if that person who got 70 percent of the contract comes back and says, "There are cost overruns," but that person who got 30 percent says, "No, there really are not, and we can develop the same product," we can encourage that kind of competition in the private sector to keep the costs to the Government. This presents the kind of the game playing that currently goes on with so many of our Government programs and contracting.

It has been talked about, with regards to contracting, as being a big issue, and I think that it is. But I think there are perverse incentives that we set up as far as the Government. We spend the money on the research. We give the contract. And then when there are cost overruns, we pay the cost overruns, because we have invested so much into the system.

So I would challenge the Administration to look throughout the Government at where you could apply these ideas. There is expertise that is out there and there are actually people in the private sector looking at how innovative ideas can be applied in many areas within the Federal Government.

Mr. ZIENTS. You are a step ahead. The contracting work we need to do is to ramp up competition, which is part of what you are saying. There also is a big movement that needs to move faster toward performance-based acquisition. Starting with what outcomes we want and asking vendors or suppliers to propose how they are going to get us to those outcomes. Then we are going to judge their performance against those outcomes, so it is the same outcomes-based rather than process-based orientation.

If we want to save $40 billion in contracting across the next couple of years, we need to do things like what you are talking about—ramp up competition and focus on outcomes, not process, in order to save that $40 billion, and at the same time, improve the quality of the services that we are receiving.

Senator ENSIGN. The challenge that you are going to have is that, once again, it is a paradigm shift that is going to happen

through departments and agencies, and they are going to try to beat you down. They just are, because that is not the way—people do not like change. This change is going to have to originate from the President to the Secretaries on down. And I was glad to hear you say that there is that kind of involvement because, if they are not that involved and they are not that passionate about it, the bureaucracy will just say, yeah, we have seen that before, you know?

Mr. ZIENTS. Agreeing with the challenge, I think two things: One, we have to prioritize. If we try to do things across every area, we are not going to get anything done. So we need to prioritize, start with what is most important, to show that we can get things done. And how you do that I think is just through relentless pursuit. Pick those few priorities, track them very carefully, make mid-course corrections and insist upon results.

Senator ENSIGN. Thank you.

Thank you, Mr. Chairman.

Senator WARNER. Our hope is that we can reinforce those efforts, and, again, echoing what you said and I think all of us have said, we need to get some early winds in this effort.

Senator Cardin?

Senator CARDIN. Thank you, Mr. Chairman, and let me just underscore a couple of points.

First, I am glad you are looking at what the Governors have done, what the States have done. In my own State of Maryland, Governor O'Malley, with CityStat when he was mayor, used exactly the type of metrics that you want on accountability. He was able to look at bottom-line results for the people of Baltimore City. The advantage he had is that Baltimore city is small compared to the Federal Government.

Second, you have a system of government in which the mayor can implement change almost immediately and eliminate programs or make other reforms quickly. It gets more complicated at the State level and we now have StateStat. As governor, he has to deal with the legislature, which is different from a city council, and much larger. Now, here at the Federal level, it becomes huge.

This is not just about the metrics. The metrics are important. They lend credibility to the recommendations that are being made. But you must get the involvement of the decisionmakers.

Now, it may be easy for you to come up with a list, and if it does not have the enthusiastic support not only of the agency but also of the White House, if it is not a priority, then the chances of success are not that great. And you can have all the support on the Budget Committee you want, but if you do not have the support of the authorizing committees and the appropriating committees, it is not going to get done.

So I do not know if I have the answer for you, but you really have to have personal investment by the decisionmakers. They must have confidence the metric is reliable, but they also have to be part of the process so that they are prepared to stand up for the right type of efficiencies in Government.

You are on the way to getting that done, but you have to reach out a lot further than you have in the past.

Mr. ZIENTS. I agree. I totally agree. And I think we have started those efforts. We have been in close contact with this Task Force,

the Committee, and committees across both the House and the Senate, and we will do a lot more of that. Early involvement is important, and then a collaborative approach. I think one of the criticisms, probably valid, of the last administration's approach is that it was much more command and control, tops down, especially between the White House and the agencies. Our approach with the agencies was not to say, "Here are your three to eight goals." It was, "Bring forward your three to eight. Let us in a very collaborative, constructive way, refine those goals and refine those metrics." It is collaboration, early and frequent involvement, which will get us there.

Senator CARDIN. And I concur on Chairman's advice. Let us look for some early victories, nothing beats early victories.

Mr. ZIENTS. I agree.

Senator CARDIN. Thank you, Mr. Chairman.

Senator WARNER. Thank you, Senator Cardin.

I want to thank you, Mr. Zients, for being here. I think you hear great enthusiasm from the members here that we want to work with you, we want to collaborate. We think that as well intentioned as past efforts of past administrations have been, perhaps the missing piece has been an ongoing, cross-cutting congressional support that goes beyond the specific authorizing area or appropriating area, and I think you are going to have that kind of partnership. So thank you for your attendance here, and recognizing we have a second panel, we will ask the panel to——

Mr. ZIENTS. Thank you.

Senator WARNER. Thank you. Let me go ahead and start to introduce the second panel as they come to the table. First we will be hearing from Sir Michael Barber. Sir Michael is currently a partner at McKinsey & Company's Global Public Sector Practices. From 2001 to 2005, Sir Michael Barber was the founder and the first head of the British Prime Minister's Delivery Unit where he oversaw implementation of former Prime Minister Tony Blair's priority programs. Prior to joining government, Sir Barber was professor at the Institute of Education at the University of London. He is the author of "Instruction to Deliver" and numerous other books and articles. Sir Michael Barber was actually the individual who headed up for the U.K. under Tony Blair's government all of these efforts in terms of government performance, and there are, I think, a lot of lessons we can learn from some of the U.K.'s efforts.

Also, let me not only introduce but I know someone who is familiar to most of my colleagues Dr. Paul Posner. Dr. Posner is the Director of the Public Administration Program at George Mason University. Formerly, he served with the U.S. GAO where he was Managing Director for the Federal Budget and Intergovernmental Issues for many years. At GAO, he led the agency's work on performance budgeting, the long-term Federal budget outlook, and emerging challenges for public sector finances. Dr. Posner has been a long-time resource to this Committee, and we appreciate him being with us today.

We will ask each of the witnesses, so we can get to questions, to try to limit their testimony to 5 minutes each. Sir Michael?

STATEMENT OF SIR MICHAEL BARBER, PARTNER, McKINSEY & COMPANY, AND FORMER CHIEF ADVISER ON DELIVERY TO BRITISH PRIME MINISTER TONY BLAIR

Mr. BARBER. Thank you very much, Senator Warner. It is actually a great honor to appear before a Task Force of the U.S. Senate and somewhat daunting for a British person. After all, this is a body that was set up partly in reaction to an overbearing British executive, and there were people——

[Laughter.]

Mr. BARBER. There were people in Britain who accused me of being part of an overbearing British executive, so thank you for the honor of inviting me here.

The theme that you have chosen for this Task Force I think is extremely important, not just for the United States but for every government. It has always been important, but in the current fiscal climate, it is more important than it has ever been all around the world.

What I want to do very briefly is describe the approach we developed in the Blair administration to driving delivery of outcomes on the Prime Minister's top priorities, and there are eight steps to that.

First of all, as the Senator said, Prime Minister Blair in 2001, after his second election victory, established the Prime Minister's Delivery Unit, which he asked me to lead and establish. And he gave us an agenda of 20 major domestic policy priorities that he wanted to ensure were delivered during his second term.

We then took those 20 priorities and debated them with members of the cabinet, with the treasury, and so on and turned them into a set of very clear goals, and they included things such as improving the performance of elementary schools, reducing wait times significantly in the National Health Service, bringing about major reductions in crime, and improving punctuality of the railways.

Of course, they were not the only things that the government had to deal with; they were the things that the Prime Minister thought were the most important to the citizens over his second term and things that would benefit from a more intensive focus from the center of government.

Then for each of those priority areas we set published targets, measurable goals with a deadline, such as no one should wait more than 4 hours to be seen and treated in an emergency room of a hospital by December 2004; or a 30-percent reduction in vehicle crime by December 2005. Those targets were public, and citizens could track progress toward them on a website.

In my view, successful reform does not require published targets, but it does require clear, specific definitions of what success would look like, and the targets have the benefit of making everything transparent.

Having established those priorities and targets, we then, on behalf of the Prime Minister, asked the relevant government departments to draw up what we called delivery plans—plans for making sure that those outcomes were delivered. It took a while for them to get those plans in place. What we really wanted to see were the major milestones, the major decision points, the steps on the way toward implementation; and, above all, we wanted to see a trajec-

tory. How would the data change from where it was in 2001 when we were beginning to the achievement of the target in 2004, 2005, or 2006?

That required the departments to think hard about the relationship between the actions they were taking and the outcomes they would deliver, and that is often a missing piece in government planning. It also required them to get better data systems, exactly as the Senator did when he was the Governor of Virginia.

Having gotten the plans in place, we then established a series of routines. If I have one single insight from working for 4 years in Downing Street, it was that government most of the time is driven by crises and unexpected events, but it is really effective routines that drive performance and deliver results. So we established a set of routines.

Every month, we sent to the Prime Minister a briefing note—very short, a couple of pages—updating him on each of these 20 priorities. That meant that in literally a few minutes, on a Sunday afternoon at Checkers, he could read what was happening on his key priorities, he could comment back, usually saying something like "Couldn't they be bolder? Why can't they go faster?" That kind of comment that we would then inject back into the system. But that way we kept him completely in the loop on his key priorities.

Then every quarter, the Prime Minister held a stock-taking meeting with each of the relevant cabinet ministers. So, for example, the Minister of Health would come two or three advisers and officials and sit on one side of the cabinet table, the Prime Minister and his advisers on the other. I would present the data, progress against trajectory, what are the successes, what are the challenges, and then there would be a performance management conversation between them.

I can remember the pleasure of hearing the Prime Minister say for the first time to the Health Secretary, "That looks like a plateau to me, Alan. What are you going to do about it?"

And then every 6 months, we reviewed the whole 20 priorities and rank-ordered them according to what we believed was their likelihood of delivering on time, on standard, and that meant the Prime Minister on one page could see his whole program, which ones were likely to deliver, which ones were unlikely to deliver, and then focus our attention on those ones that needed most help.

So, for example, in 2004, we were able to identify a significant underlying problem with progress toward the health wait times target, which was then unlocked and solved in time for the target to be hit. If we had not done that, we would have really struggled to hit the target.

Then out of those routines, we were able to take problem-solving actions, sometimes just a conversation with the department, getting them to pay attention to it; sometimes an in-depth review where we went out to the front line with the department and looked at what the barriers to delivery were; and occasionally full-scale crisis management involving the Prime Minister, such as we did in street crime on 2002 when we had crime going completely the wrong way, but we were able to turn it around in about 6 months.

Above all, what we were trying to do was change the culture. We were trying to get a culture of delivering results embedded in the civil service, and we were challenging the belief that it was always too difficult. We were challenging the view that these targets were too ambitious. We took the view from the Delivery Unit that the targets were achievable and the amount of money that had been allocated was enough, and we would not accept any excuses.

We were very persistent. We were very plain-speaking and direct. We would not go away until the problem was solved, but we never banged the table or shouted.

We also built a relationship by promising that if in 3 or 4 years the cabinet secretaries and departments did not like us, we would abolish ourselves. But as it turned out, 3 or 4 years later they found us very helpful because we kept them focused on the agenda.

So what were the outcomes of this work? First of all, around 80 percent of the targets we set in 2001 were achieved. On the other 20 percent, in almost cases progress was made, although we had fallen short of the target.

Prime Minister Blair described the Delivery Unit as the best reform he ever made of government. We did build the capacity of government to deliver results, and that has continued since. And the focus on data and transparency made sure that evidence-informed policymaking became the norm.

And then just to pick up one point from the previous debate, I think the fact that we focused on the outcome and then mapped back meant that we required departments and agencies to collaborate in pursuit of a goal rather than just monitoring agency performance or specific programs.

Thank you very much for your attention.

[The prepared statement of Mr. Barber follows:]

TESTIMONY FOR SENATE
BUDGET COMMITTEE

TASK FORCE ON PERFORMANCE MANAGEMENT

Sir Michael Barber

29 October 2009

I am honored by, and grateful for, the opportunity to provide testimony on the approach we developed in the Blair Administration to performance management. I hope my comments, which will focus solely on the British experience, will be of interest. I look forward to discussing this with the Task Force.

Our approach to performance management had the following elements.

1. **A Delivery Unit**

Immediately after his re-election in 2001 Prime Minister Tony Blair established a new Prime Minister's Delivery Unit under my leadership and directly responsible to him. Its mission was to secure delivery of about 20 major domestic policy priorities, selected by the Prime Minister in consultation with his cabinet colleagues.

2. **Priorities**

The 20 major priorities were selected from across the areas of health, education, policing, criminal justice, asylum and transport. They included, for example, improving the performance of elementary schools, reducing wait times in the National Health Service, bringing about major reductions in crime and ensuring punctuality on the railways.

Of course, these were not the only issues the government had to deal with; they were the ones that the Prime Minister – having listened to the British people during the election campaign – believed were most important to citizens and would benefit most from a more intensive focus and drive for implementation.

3. **Targets**

For each of the priorities we set targets; measurable goals with a deadline: for example, that no one would wait more than 4 hours to be seen and treated in the emergency room of a hospital by December 2004; or that there should be a 30 percent reduction in vehicle crime by 2005. These targets were made public and citizens could track progress towards them on a website.

Successful reform does not require published targets but it does require clear, specific definitions of success. Published targets, however, have the benefit of being measurable and of setting expectations both for the providers and users of a service.

4. **Delivery Plans**

Once the priorities and targets were established, the Delivery Unit required the relevant government departments to prepare delivery plans which set out how the targets were to be achieved. We reviewed the quality of these plans with the relevant officials.

We wanted departments to draw up real operational plans which set out the key milestones, major decision points and key steps towards implementation. We also required the plans to include trajectories that indicated how the data would change from current performance to hitting the target. The trajectories were crucial because they required government departments to think hard about what impact their proposed actions would have on the outcomes.

5. **Routines**

Perhaps the single most important lesson of my time in the Delivery Unit was that, all too often, government is driven by crises and unexpected events yet it is routines that deliver results. The Delivery Unit in collaboration with the Prime Minister developed three key routines.

i) **Every month,** we prepared a brief note for the Prime Minister on progress on each of the key priorities. This meant that, in literally a few minutes, he could acquaint himself with progress on his key priorities and, if he chose, respond urging faster action or continued advance.

ii) **Every quarter,** the Prime Minister held a stocktake meeting with each of the relevant ministers at which progress against trajectory was reviewed and any necessary corrective action agreed. The Delivery Unit prepared the agenda for these meetings which normally began with a brief presentation from me, showing progress and identifying problems. For the first time in British history there were regular meetings in the Prime Minister's diary where the agenda was not strategy or policy but implementation.

iii) **Every six months,** the Delivery Unit reviewed all the major priorities, again in collaboration with the relevant departments, and rank-ordered them according to "Likelihood of Delivery". This ensured the Prime Minister knew where he and we needed to focus most of our energy in the next phase. In addition, this six-monthly Delivery Report informed the Prime Minister what action would be taken in the next six months on each of the priorities either to ensure continued progress or to solve problems where they had arisen.

The result of these three routines was that problems were identified early and corrected, rather than left to fester and become crises.

From the Prime Minister's point of view, they meant that whatever global or political crises he had to deal with –and there were many between 2001 and 2005 – he knew that the Delivery Unit was focused all day, every day, on ensuring implementation of his key domestic policy priorities.

6. **Problem-solving**

Of course, with large, complex reforms in a rapidly changing world, there are times when implementation does not go according to plan. The routines were sufficiently robust to identify these moments promptly. In the Delivery Unit we developed a range of ways of solving problems as they arose. At the simplest level, sometimes a problem-solving conversation with the relevant officials would be enough. With more complex problems, a rapid (six-week) review, carried out in collaboration with the relevant department and involving frontline visits as well as analysis of the data, would be required. Occasionally, a period of full-scale crisis management, involving the Prime Minister himself, would be needed to correct the course. This was especially important where solving the problem involved multiple departments and agencies.

7. **Culture change**

Underlying the approach was a drive to change the culture in the civil service. We wanted to instill the belief that bold reform and the transformation of performance was possible.

The Delivery Unit employed a relatively small number of talented people who, with the backing of the Prime Minister, sought to build collaborative relationships with those whose performance we sought to change. We were constructive, plain-speaking and persistent. We insisted that the targets were achievable with the resources already allocated. When problems arose we sought solutions through

benchmarking within services, between services and globally. We refused to accept that problems, however intractable they appeared, could not be solved. In short, we had what Prime Minister Blair called a "can-do" attitude.

At first, inevitably, there was some suspicion around government that we were the Prime Minister's "spies" checking up on ministers and departments, but quite quickly people perceived that, while we were challenging, we were also a force for good; we ensured consistent pursuit of a small number of priorities, helped to find solutions to problems as they arose and – importantly – always gave the credit to the relevant ministers and departments, rather than claiming it for ourselves. We understood President Truman's dictum that "there is no limit to what can be achieved as long as you're prepared to share the credit."

8. **Conclusions**

- Around 80 percent of the ambitious targets we set in 2001 were achieved by 2005. With the other 20 percent, in almost cases, performance had improved, even though we had fallen short of the target.

- Prime Minister Blair described the Delivery Unit as the best reform he ever made of the government machine.

- Real progress was made in building the overall capacity of the government to implement reform successfully – though when I stood down in 2005 there was still a long way to go. Further progress has been made since 2005.

- Our focus on data and transparency helped to establish an evidence-informed approach to policymaking and implementation.

The key messages are that establishing clear priorities, measuring progress, establishing simple, easy-to-use routines and solving problems as they arise – rather than when they become crises – makes a huge difference to performance. Conceptually, this is straightforward; impact depends on the rigor and persistence with which the approach is implemented.

Senator WARNER. Thank you, Sir Michael.
Dr. Posner.

STATEMENT OF PAUL L. POSNER, PH.D., DIRECTOR, MASTER'S IN PUBLIC ADMINISTRATION PROGRAM, GEORGE MASON UNIVERSITY

Mr. POSNER. Thank you. First of all, I want to applaud this Committee for creating the Task Force. It is a very welcome initiative.

I also want to say I am appearing in my own capacity as well as as President of the American Society for Public Administration this year. I am drawing on the expertise and background of our 8,000 members who are practitioners and academics in the field of public administration.

I think the Task Force comes at an opportune time in our history. We are building on what is really one of the unexpected successes in Government: the sustainable focus on performance in the Federal Government for 16 years—something nobody would have expected when we passed GPRA in the middle of the night in 1993.

Both for GPRA and the PART, we have had several administrations as well as the current one with a sustained commitment to improving performance within the Federal agencies, and, we have proceeded, as you demonstrated, to develop a voluminous supply of information. What we need to do is make people walk across that bridge and facilitate the demand for that information.

But even with that, I think it is important to recognize the progress agencies have made, and that is where this has really taken root, not yet that much in the Congress, but places like the Coast Guard, for example, that reexamined their accident programs away from an investigative focus on the condition of vessels to real understanding of what caused accidents in marine waterways, resulting in a nearly 300-percent decrease in towing accidents in the towing industry in 4 years. That is a result of applying the discipline of performance analysis and metrics from GPRA. The FDA and the Veterans Health Administration also have really made sustainable changes to reduce death and improve efficiency in Government programs, and we need to celebrate that.

It is also important, as we think about performance budgeting, that we have adopted budgeting as the tail to wage the performance dog because we know that is an annual process that grabs people, and if we get the budget process, we have their interest. However, it is important to understand what the limits are, that performance budgeting is not taking politics out of budgeting. Performance does not automatically tell us how much to raise a program or how much to reduce a program.

If a program, for example, for drug control, we find that we are increasing the number of cocaine deaths, we are not going to reduce funding for drug control programs. We will try to investigate why, but there is no mechanical result from applying performance metrics to budgeting. Budgeting is still a political process and a difficult one, particularly in the times that we are sailing into.

We are now faced, I think, with a new dilemma that was built on our success. We have now developed more sophisticated information. Now, how can we use it to solve the more significant problems that are facing the Congress, particularly the greater fiscal challenges that we are facing? And I think as we think about where do we go from here, I think there are several areas that really need renewed emphasis, both in the executive branch and in the

Congress. One is to continue strengthening the foundations in the agencies. This takes a long time to develop metrics to measure things like Head Start and other complex Federal interventions in highly difficult settings.

We need to think about how we can build budget accounts that more focus on performance rather than inputs, which is a long-term process that must involve the Congress. And we need to think about how to make budgeting more a strategic enterprise. GPRA had a feature called a Governmentwide Performance Plan that has never been implemented that would have focused on the cross-cutting dimensions of performance that are so critical. We have never done that. We still have a budget that is largely stovepiped by accounts and agencies, and we need to kind of step that up as well.

And, finally, I think we need to sustain a program assessment emphasis like PART did, but we need to change it. It needs to be more targeted, more selective, and broader purpose to focus more on the broader outcomes rather than each narrow budget account. I think that is going to be an important way forward.

And, most importantly, as has been mentioned here, we need to engage in the Congress. Anything that can be sustained in this area has to involve the Congress. Whether it is performance targets or new reforms in the agencies, why, we need to get Congress on board.

And I do not think Congress has been a performance wasteland by any means. There have been hearings up here on a variety of programs and overseeing PART and GPRA in general. I think what we need to think about is where do we go from here and what is the role of this Committee. This Committee in some sense fills a missing blank here, that there has never been a focus, as you have said, on the broader outcomes that we are shooting for in Government. Each Committee tends to focus on its narrow programs, and its narrow stovepipes, go to speak.

In fact, there are profound disincentives for us to look across the board at outcomes, across the different tools of Government. There are walls that divide discretionary and mandatory spending, for example, and disincentives to cross those walls. There is tremendous disincentive to look at the largest growth area in Federal activity, which is tax expenditures. We now lose as much revenue in tax expenditures as we spend in discretionary spending every year on over 150 particular tax credits and tax exclusions and deductions that have extraordinary significance for performance, whether it is in housing or health care.

If you held up the performance book for HUD, for example, for many years, you would never find the largest tax program, the largest Federal program for production of low-income housing, which is the tax credit, because HUD did not take ownership of that, since it came through the Tax Code. That was Treasury's problem.

So we have tremendous fragmentation in what I call the tools of Government. We have seen it from the health care debate. On the one hand, we are trying to expand access and control costs. On the other hand, we have a very expensive tax exclusion for health benefits that is increasing the incentive to raise costs in the health care system.

So these are the kinds of challenges that I think you face with the fiscal winds behind you, if you will, and the mother of necessity being fiscal crisis. I think you have the opportunity to possibly overcome this fragmentation within the Congress. This Committee is the only one that can do it. It has the annual budget process. It has the budget functions and sub-functions as the meaningful categories of analysis to transcend the specific stovepipes. It has the ability to use outcomes as the great unifier. The point is outcomes can unify the purposes of a variety of programs. In the process, the Committee can ask, as you did, how do each of these programs work. Do they work together synergistically? Or do they work at cross purposes?

To what extent is fragmentation causing overall substandard performance? How do the programs compare with each other in terms of their performance against these broader targets? And which ones appear to be the better bets in terms of bang for the buck?

And in my testimony, I have talked about three areas based on GAO's work. You have already highlighted one—food safety—which has legendary fragmentation that contributes to real health and safety problems. The issues you should deal with are things that really complicate people's lives, that not only cause problems on paper but cause problems in practice.

GAO did a wonderful report on higher education subsidies that chronicled the growing thickening of subsidies across grants and loans and tax expenditures and how many of these things work at cross purposes. Families and students are confused, often do not take all the assistance they can get because there is such confusion. Tax credits oftentimes results in families being ineligible for grant programs and loan programs and the like.

There has been little examination of the performance of these different tools of Government with regard to higher education. Nobody really knows, for example, whether the HOPE and Lifelong Learning tax credit has really increased participation in higher education or, worse, whether it has actually caused universities to raise tuition, as some studies have indicated.

Those are the kinds of analysis, I think, that this Committee is uniquely positioned to do.

One of the things we need to think about when we look at these various areas is not just the programs, but as you have been indicating here, the tools of Government, because looking across Government, Government uses tools that we really do not understand that well. We have talked about contracts. The problems there are legendary. We also have systemic design problems in grants. You know, many grants are not well targeted. Much grant money—we did a study at GAO 15 years ago that showed overall, for every dollar of Federal funds that gets sent to State and local governments, about 68 percent is substituted for State and local money. They reduce their own funds as a result.

How can we get better bang for the buck when we use a grant? How can we get better accountability that ensures a marrying of Federal and State and local objectives? How can we get better assurance that loans are going to get paid back and that we are going

to actually involve banks in sharing risks when we engage the financial community in that?

And, finally, and fundamentally, how can we get a handle on tax expenditures to make them more performance oriented? We added tax expenditures to GPRA. Frankly, it is the lagging participant in the whole GPRA enterprise, and much work needs to be done to document that.

Well, you have obviously a lot of candidates and targets that you can focus on for your Task Force. I have also in my testimony talked a little bit about how this Committee can go beyond your own Task Force to develop a more institutionalized focus in the Congress on these cross-cutting areas? And when I was at GAO, we came up with this notion of a performance budget resolution where possibly the budget process and the Congress could marry up with the executive process. You know, the executive process is not just about dollars anymore. It really is about performance. There is a conversation that OMB has with the agencies that focuses on both dollars and results. The question is: Can congressional budget process come along with that same trend? Can we encourage the committees of the Congress to engage in a performance-related discussion following the budget resolution process? That is something that remains to be seen.

[The prepared statement of Mr. Posner follows:]

Performance Budgeting: Informing Hard Choices Facing the Nation

Statement Prepared by Paul L. Posner
Director, Public Administration Program
George Mason University

Hearing before the
Senate Budget Committee
October 29, 2009

Performance Budgeting: Informing Hard Choices Facing the Nation

Paul L. Posner
George Mason University

Mr. Chairman and Members of the Committee

I appreciate the opportunity to appear before you today to share my views on the prospects for performance budgeting, both in the Executive and the Congress. Your decision to create a Task Force on Performance, chaired by Senator Warner, marks an important step forward for this committee and the Congress as a whole in integrating a performance perspective into the budget process.

As it begins its work, it will be important for the Task Force to assess where we are with performance budgeting at the federal level. In fact, the years since 1993 have been marked by considerable progress, particularly at the agency level. Initiatives to integrate and link performance data with budget presentations and decisions have been emphasized through two successive Administrations, and the Obama Administration has reaffirmed its importance in their management agenda. In response to both the Government Performance and Results Act (GPRA) and the Program Assessment Rating Tool (PART), agencies have responded by producing a supply of valuable performance information, metrics and plans.

The challenge now involves stimulating the demand for that information on the part of budget decision makers in both the executive and the Congress. This Committee has an opportunity to play an important role in the next stage of evolution of performance budgeting. As the nation faces increasingly wrenching fiscal choices, performance assessments and reviews can become a valuable tool to sort out competing claims on the increasingly constrained fiscal resources of the nation. While never easy, a performance informed approach can, in effect, take advantage of fiscal necessity to make reforms and address long standing performance challenges and weaknesses in federal programs.

The Surprising Staying Power of Performance Budgeting

Performance based reforms have had a long history in the United States at all levels of government. Often led by state and local initiatives, public administrators at all levels have become gripped by waves of performance reforms intended to improve performance and enhance public confidence in government. Ushered in with great expectations, reforms such as Planning-Programming-Budgeting, Zero Based Budgeting, and Total Quality Management, achieved significant improvements but are widely acknowledged to

have fallen well short of their mark in institutionalizing a sustainable focus on performance within government over the longer term. This checkered history of reforms encouraged a certain amount of cynicism about the efficacy of performance management to achieve lasting success in government.

One lesson learned from these past initiatives is that the ultimate success of performance reforms will be predicated on their integration with the most important process engaged in by public managers every year – the budget process.[1] The introduction of performance goals and metrics into the budget process gained the moniker of "performance budgeting" and this has become a fundamental feature of current performance reforms at federal, state and local levels of government, as well as in most OECD nations.[2]

While the linkage of performance plans and metrics with budgeting was viewed as critical to the success of performance management, few really examined what this meant. Indeed, most simply treated performance budgeting as a proverbial "on-off switch" - you either did it or you didn't. In reality, performance budgeting is more like a dimmer switch, with a continuum of different strategies to link budget decisions to performance data:

- Presentations – Budgets are infused with information discussing the performance consequences of budget decisions. The presentations can be linked at both the individual account level in the budget or at the aggregate performance plan goal level.
- Budget Restructuring – The fundamental basis of budget decisions – budget accounts – are reorganized to reflect performance goals. This can reinforce the shift in focus of budgeting from inputs to performance outcomes.
- Performance reviews and assessments- Formal assessment processes, such as PART, evaluate how well programs and operations are meeting performance goals and outcomes
- Performance targets – Agencies have targets that are set in either outcome or output terms for performance for the coming year which are integrated with the budget request and appropriation.
- Performance linked funding – Under this approach, resource allocation decisions are driven in some mechanical way by performance levels and comparisons. Agencies achieving greater efficiencies by producing at higher levels get higher payments, while those falling short experience budgetary reductions. This approach is what many advocates of performance budgeting envision, but is typically the most difficult to implement.
- Outcome based budget formulation - Several jurisdictions have sought to go beyond the confines of traditional agency-centered models of budget formulation to establish outcomes rather than agencies as the primary decision unit for the budget process. The state of Washington notably was among the first to initiate

[1] U.S. General Accounting Office, Performance Budgeting: Past Initiatives Offer Insights for GPRA Implementation (Washington, D.C.: GAO, 1997)
[2] Organization of Economic Cooperation and Development, Performance Information in the Budget Process: Results of the OECD 2005 Questionnaire (Paris: OECD, 2005)

this reform, with the help of David Osborne and other consultants with Public Strategies Group.[3]

Regardless of the form that performance budgeting takes, it is important to have realistic expectations about what such reforms can accomplish. The integration of performance information cannot, and should not, be expected to "take politics out of budgeting" or to supplant the judgment of performance evaluators and analysts for elected officials. There are too many other important criteria that properly belong in budgetary debates, including judgments about equity, needs and the relative priorities given to competing claims.

Some argue for a mechanical model of performance budgeting -- if performance goes up, the agency or staff get rewarded with increased resources, if it goes down, they get penalized. While appealing on first glance, such a model presupposes that there is a single budgetary answer to performance trends, when in fact there are many. Thus, for instance, if the number of drug abusers goes up, it is unlikely that we would penalize drug programs with a loss of funds. In fact, we may find that increased funding is necessary to bring about performance improvements, along with other needed management and program reforms.

The goal of performance budgeting should not be to provide the **answers** to inherently political choices in the budget process but rather to provide a new set of **questions**. The shift in the agenda for the budget process could be expected to bear fruit in a more informed debate that adds performance goals and results to the other important issues addressed in annual resource allocation debates.

Recent History of Reforms

The federal government has experienced a sustained period of over 16 years where performance management and budgeting initiatives have taken root and become sustained through different Administrations and Congresses. Beginning with the passage of the GPRA in 1993, agencies in particular have found performance goals and metrics to be useful to achieve their own internal management and organizational goals. Other actors, such as OMB and some in the Congress, have also viewed the performance agenda as a key strategy in their oversight and review of programs and agencies.

The Government Performance and Results Act

The enactment of the Government Performance and Results Act (GPRA) in 1993 began a period of reforms in performance management and budgeting that have been sustained to this day, surprising even its advocates with its staying power. The Act conceived of a phased implementation process beginning with performance planning at the agency level which would lead to budget integration at some future point. It was felt that agencies needed to first develop a credible "supply" of goals, measures and data through plans and

[3] This reform formed the basis for David Osborne's book with Peter Hutchinson, The Price of Government(New York: Basic Books, 2004)

reports before such information would be taken seriously in the crucible of the budget process.

GPRA has ushered in a period where performance information and justifications have become widely accepted in federal agencies, in OMB reviews and even, sporadically, in certain committees of the Congress itself. GAO's periodic survey of federal employees, similarly reports growth in the availability of performance information and measures, although the use of the information to make decisions remained a challenge. [4] The surprising staying power of GPRA is partly due to its statutory origins, as reformers realized that past initiatives undertaken without the support of the Congress failed to transcend the terms of their executive political champions

The Bush Administration built on the GPRA infrastructure to carry performance budgeting initiatives further along the continuum. While the agencies had made progress in developing the "supply side" of performance plans and measures under GPRA, the demand for this information by budget decision makers proved to be episodic at best, particularly in the Congress.

The Bush Administration sought to strengthen the linkage of performance with budgeting. First, they encouraged agencies to restructure their budget presentations and underlying account structures to better align budget resources with performance goals. Beginning with the fiscal year 2005 budget, OMB required agencies to submit a "performance budget" that would integrate the annual performance plan and the congressional budget justification into one document. For instance, the Department of Veterans Affairs sought to consolidate budget authority for its burial program from separate operating, construction, and grant appropriations accounts into a single account. While framed as a strategy to promote the GPRA agenda of linking plans with budgets, this initiative was viewed by appropriators and some agency managers as laying down the proverbial gauntlet by eliminating traditional information presentations that long served as the foundation for congressional appropriations and oversight. [5]

The Program Assessment Rating Tool

The Administration's Program Assessment Rating Tool (PART) added a program review and assessment component to performance budgeting. The PART initiative was justified as a way to promote greater attention to the performance perspective that was originally fostered by GPRA. Moreover, the initiative also was premised on the need to transcend the traditional focus of budget process from one that focused disproportionate attention on incremental changes to existing programs to a process where the base itself is

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[4] Bernice Steinhardt, Government Performance: Lessons Learned for the Next Administration on Using Performance Information to Achieve Results (Washington, D.C., GAO, 2008, GAO-08-1026T

[5] U.S. Government Accountability Office, Performance Budgeting: Efforts to Restructure Budgets to Better Align Resources With Performance (Washington, D C GAO, 2005) GAO-05-117SP

periodically reexamined. Given the fiscal challenges facing the nation both now and over the longer term, such a periodic reexamination can be healthy for any political system.[6]

The PART process consisted of a series of questions rating the purpose and design, planning, management and results of each program in the budget. To date, OMB has assessed the performance of nearly 1000 programs, covering 96 percent of all programs in the budget.

While PART can be viewed as building on GPRA, there are differences to be sure. PART constituted a more active strategy, where performance information would form the basis for explicit judgments of a program's effectiveness that would become part of the Presidential budget formulation process. Moreover, while GPRA plans and metrics were largely developed by federal agencies themselves, PART marked a significant shift in control of the performance agenda from the agencies to OMB. It was the President's budget agency that designed the process and made the final judgments on program assessments, with the active participation of the agencies. At least in the initial years of implementation, agencies were encouraged to replace GPRA goals and measures with those developed under PART, substituting OMB's judgment for that of the agencies.

The PART process has itself been assessed by GAO and others in the federal community. The process did make performance assessments a more explicit feature of OMB budget reviews and provided agencies with a powerful incentive to improve their performance data and measures, if for no other reason than to protect themselves in this review process in the future. [7] However, the PART process also raised vexing questions about the ability of any process to develop the appearance of a "bottom line" rating for complex government programs. Given the multiple purposes and goals reflected in most programs, OMB staff invariably had to make judgments on how to answer yes/no questions on such issues as whether the program was effective in reaching its goals and whether the costs of the program were reasonable. Notwithstanding claims that PART rests on "objective" ratings, this is often not possible in the high stakes world of federal budgeting where multiple stakeholders have their own interpretations of seemingly straightforward numbers. A single program often has multiple performance goals and a single performance indicator, whether it is trends in drug abuse, serious crimes or welfare caseloads, is subject to multiple interpretations about what the performance data mean and how it should be used in making decisions.[8]

Moreover, the PART process focused on relatively narrow budget accounts and activities as the unit of analysis for its assessments. While having the advantage of tying into the building blocks for the budget, this focus lacks the breadth to capture the broader

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[6] U.S. Government Accountability Office, 21st Century Challenges: Reexamining the Base of the Federal Government (Washington, D.C.: GAO, 2005) GAO-05-325SP

[7] U.S. Government Accountability Office, Performance Budgeting: PART Focuses Attention on Program Performance, but More Can Be Done to Engage Congress (Washington, D.C.: GAO, 2006, GAO-06-26)

[8] U.S. Government Accountability Office, Performance Budgeting: Observations on the Use of OMB's Program Assessment Rating Tool for the FY 2004 Budget (Washington, D.C.: GAO, 2004, GAO-04-174)

outcomes achieved by federal programs. Whether it be providing low income housing, food safety or job training, the outcomes achieved by the federal presence are typically promoted by a number of related budget activities and programs.

The experience with PART suggests that any assessment will invariably reflect the interests of the entity that controls the process. As part of the President's budget preparation, PART clearly must serve the President's interests. However, this meant that the broad range of actors who play a critical role in budgeting, particularly Congressional appropriators, perceived the underlying data as reflecting the President's judgments, rather than those of a broader community of experts and other interested parties. The long history of performance budgeting initiatives have taught us that sustained use of performance data occurs only when the performance goals and data are perceived to have credibility – which is often arrived at through a longer term consensus building process within a policy community.

I might add that most efforts to integrate performance information into budgeting suffer to some degree from the absence of open collaboration with stakeholders and the Congress, reflecting the closed nature of the executive budget process where deliberations are considered to be "predecisional" and not subject to public disclosure our debate. This is true not only for the budgetary figures and decisions themselves, but also for performance data and plans that are part of the budget formulation process – whether it be the PART scores of the Bush Administration or the performance plans of the Clinton Administration.

Consequences of performance reforms

The performance test for management reforms is whether they produce sustainable results in decisions and program implementation. From this vantage point, the federal agencies in fact have demonstrated real progress in using performance information to manage their ongoing activities. Whether it be framing new ways of thinking about goals, or assessing and overseeing employees, contractors or grantees, performance data have given the agencies powerful new tools to reach their goals. For instance, federal agencies are using outcome data to allocate their own staff to areas needing greatest attention. Grant making agencies are using performance outcomes achieved by grantees as a basis for providing bonus funding rewarding those state and local projects achieving notable results.

Leading examples illustrate the payoff from performance management and budgeting for agency effectiveness and accountability: [9]

- Coast Guard realized major reductions in accidents under its marine safety program. The advent of performance analysis prompted a shift from monitoring the number of inspections and condition of marine vessels to a focus on the reasons for underlying trends in accidents. Finding that human error and industry

[9] Harry Hatry, Elaine Morly, et.al. *How Federal programs use outcome information* (Washington, D.C.: IBM Center for the Business of Government, 2003)

practice were primarily responsible for safety outcomes, the agency worked with marine industry on training programs. The result was a dramatic cut in the numbers of accidents per 100,000 employees from 91 to 27 over four years.

- FDA's office of generic drugs used performance targets and monitoring to reduce the time to review generic drug applications. As a result, the percent of applications reviewed within 180 days went from 35 to 87 percent. In addition to tracking overall progress, performance data were used on a real time basis to monitor workload across units, enabling the agency to break through bottlenecks by shifting work to less burdened units.

- Veterans Administration health care reformed its delivery system by using health outcomes as the basis for defining outcomes to be achieved by its 21 health services networks. The underlying trend data were used both as a basis for funding the networks but also to analyze best practices. The analysis of cardiac surgery outcomes among VA health care units, for instance, promoted the introduction of best practices throughout the system, leading to reduced morbidity in cardiac procedures.

- The National Highway Traffic Safety Agency used performance data to show the increases in seat belt use flowing from the "Click it or Ticket" safety belt program in three states. Performance data documenting the effectiveness of this strategy prompted its adoption by most states in the country, leading to dramatic increases in safety belt usage throughout the nation.

Were Do We Go From Here?

PART and GPRA established the valuable expectation that performance will inform budget decisions. Continuity is important – the attention devoted to performance information by both Clinton and Bush Administrations have prompted agencies to take the generation of goals and measures and data more seriously. The new Administration is moving to continue the momentum, albeit with its own imprint. For instance OMB's October 7 directive outlining a strategy to increase the focus on program evaluation in federal agencies is a promising start to strengthening federal evaluation research and data.

The question is – how do we build on the recent reforms to establish a performance budgeting process that will be sustainable and relevant over the longer term? In our system of separated institutions sharing powers, sustaining and enhancing performance budgeting must of necessity involve the President, the agencies and the Congress itself. To be sustainable, performance initiatives, accordingly, must be Janus-faced, accommodating various dimensions and emphases to satisfy the numerous accountability interests and actors in our system of government. Thus, the agencies will find performance useful to monitor program management and justify programs. OMB will use performance data as a tool to review and prioritize funding requests from agencies. As

will be discussed below, the budget committees might adopt a more crosscutting focus for performance transcending the boundaries of individual programs and even agencies.

Taking this into account, I will conclude with some suggestions for initiatives that can advance and sustain the multiple uses of performance information in budgeting across federal agencies, OMB and the Congress going forward.

Strengthening the foundations

The foundation for performance budgeting must continue to be strengthened at the agency level. This entails continued development of credible performance measures, data and plans to foster greater confidence by decision makers that is a precondition for the use of this information in budgeting. Make no mistake, this is a long term enterprise and not all agencies have reached this level. It is only when such information is perceived to be fair, balanced, comprehensive and accurate that it will be taken seriously as a new input to an inherently political process.

Ideally, integrating performance information into budgeting should occur as part of the dialogue about proposed budgets between OMB, the agencies and congressional committees. One would hope that the debate over resources would not only focus on dollars and inputs but on whether proposals can or have met discrete performance goals and targets. This kind of performance based dialogue can be promoted by continued efforts to reconstitute agencies' budget presentations and account structures to improve alignment of the budget presentations with performance goals and strategies. This may very well include not only improved presentations but restructuring of basic budget accounts and activities that form the backbone of the budget formulation process.

As other nations have discovered, when the basic choices in budgeting are reframed in performance terms, the debate over budget formulation may take on a greater performance orientation as well. Congress has resisted such initiatives before, partly on the grounds that the new account structures threaten to eliminate information and support about the inputs of programs, e.g. numbers of staff, status of contracts, which are vital to effective congressional oversight of the executive. Accordingly, any restructuring of agency budget presentations and accounts can be expected to be additive, supplementing rather than replacing traditional information and controls.

Building a strategic focus for budgeting

As we think about the priorities of government, it has become more apparent that the important goals and objectives of policy cut across the narrow confines of budget accounts, bureaus, and departments at the federal level. For instance, nearly one half of FY 2009 budget authority for homeland security is provided by numerous agencies outside the Department of Homeland Security. Indeed, most of the major missions of government transcend the boundaries of the federal government itself, requiring partnerships with state and local governments, nonprofit organizations and private for profit firms.

In fact, GAO's work points to systemic fragmentation and overlap across government agencies and programs serving common objectives. Often the product of adaptive responses to emerging problems, the common response has often been the proliferation of responsibilities and programs, perhaps targeted to a new clientele, or involving a new program delivery approach or even simply merely layered onto existing systems and programs

A focus on outcomes lends itself to a cross cutting focus, as achieving most outcomes engages the resources of many agencies and nonfederal actors alike. The traditional unit of analysis in budgeting, however, is the budget account and the federal agency, with little cross over to recognize the crosscutting dimensions of performance. The focus of GPRA largely reinforces this by emphasizing the preparation of plans by agencies and bureaus within departments.

However, the GPRA also included a requirement for the President to prepare a governmentwide performance plan. Such a plan could begin to reframe budget decisions by providing information on performance for the broad mission of government that cut across traditional agency lines. For the most part, this plan has not been forthcoming. Only once in 1998 did OMB prepare a presentation by budget function – the nearly 20 major mission areas of government. This presentation illustrated how the value of such a process by presenting the outcomes for major federal agencies sharing responsibility for common mission areas. For instance, the Natural Resources and Environment chapter included an extended discussion of the many agencies involved in federal land management, presented in the context of three governmentwide federal land management goals: protecting human health and safeguarding the natural environment; restoring and maintaining the health of federally managed lands, waters, and renewable resources; and providing recreational opportunities for the public to enjoy natural and cultural resources. Moreover, the discussions included not only discretionary programs but the involvement of other tools of government such as tax expenditures and regulations in promoting the broad missions of the government. [10]

Reconstituting program assessment

With federal budget deficits forecast as far as the eye can see, some kind of periodic assessment of federal program results will continue to be an important dimension of performance budgeting in the years to come. While the PART sparked such a review process, it is an ideal time to rethink the assessment process. As all programs in the budget have gone through at least one review cycle, simply continuing the current process through yet another round of assessments would not constitute the best use of scarce analytic resources in the agencies and the budget community. The completion of the cycle of PART reviews, instead, should provide the occasion to refocus the attention of the budget community on a broader, yet more targeted assessment process that would be more inclusive and open than PART has proved to be. The process I have in mind would refocus assessments on the broader outcomes that individual federal programs are

[10] Government Accountability Office, The Results Act: Assessment of the Governmentwide Performance Plan for FY 1999 ((GAO-AIMD-GGD-98-159, 1998)

attempting to influence together, building on the results of both GPRA planning and individual PART reviews.

The experiences of other nations can be examined to help us rethink our own process. In the Netherlands, reconsideration reviews are conducted on both particular programs as well as broader crosscutting areas selected for each budget cycle, with participation by working groups of central budget and departmental staff as well as external experts, resulting in a public report with recommendations to be considered. According to OECD, the process has been in place since 1981 and has lead to significant savings as well as many reforms of major policy areas. [11] In their broader crosscutting reviews, which they call Interdepartmental Reviews, their system is different than PART in several respects. First it is selective, with about 10 reviews each year. Second, it has a broader focus as reviews address an entire policy area or governmentwide management concern. Third the reviews are more collaborative involving a partnership the budget office, agencies and outside researchers and academics.

Our own recent experience as well as that of other nations suggests it is time to consider a revised assessment process within the context of continuing and enhancing the connection between performance planning and budgeting.. Such a process should include the following elements:

- Targeting future assessments based on such factors as the relative priorities, costs, and risks associated with related clusters of programs and activities addressing common strategic and performance goals. More selective reviews would help ration scarce analytic resources as well as focus decision makers' attention on the most pressing policy and program issues.
- Adopting a broader unit of analysis keyed to program outcomes, not budget accounts. PART's focus is overly narrow and fails to focus attention on the most important areas for governmental policymaking – the relative contribution of different programs and tools to policy outcomes. Thus, rather than producing separate reviews of the many different job training programs in differing budget years, a more comprehensive review process would cover all significant programs together in one assessment. Such a review should cover all significant governmental tools address broader outcomes, including the more indirect tools such as tax expenditures and regulatory programs.
- Establishing a more open process that is more independent of OMB and the agencies. The Netherlands process entails reviews by committees often chaired by independent experts, with participation by budget and agency officials. There are many options to open up the assessment process here. One option that could be considered would be to anchor the process in a nonprofit organization while guided by OMB and the Congress. While including a broader base of stakeholders, such assessments must be truly independent and neutral to attain the credibility necessary to influence budgetary decisions.

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[11] OECD, Reallocation: The Role of Budget Institutions (Paris, OECD: 2005)

Engaging the Congress

Mr. Chairman, it is vital that such a revised assessment process engage the Congress. Given the strong role Congress plays in both budgeting and management oversight, Congressional involvement will prove to be vital in reinforcing the importance of performance assessment and ensuring that such a process reflects a broader base of values and interests.

It is important to note that Congress is not the performance wasteland that some critics suggest. GPRA itself was the creation of the Congress and, Congressional oversight committees have retained a vital oversight interest in monitoring progress. Authorizing committees include performance targets in legislation and often focus on how well agencies are meeting goals and performance expectations. [12]Appropriations reports are replete with congressional expectations for performance, often requiring monitoring of agency workloads and outputs. It is true that appropriators have generally not been as supportive of outcomes and have been resistant to executive attempts to restructure long standing budget accounts and presentations, partly because these initiatives threatened to eliminate information on inputs and staffing that is vital to congressional control of spending.

The Unique Role of the Budget Committees

The Budget Committee has an important potential role to play in the advancement of performance based budgeting. The other committees have a programmatic or management orientation that has been engaged episodically in reviewing performance in recent years. However, only the budget committee has the breadth to adequately address the most important performance outcomes that we as a nation seek to achieve. The most important outcomes cut across programs and committees, yet to date we have had sustained a systematic focus on these broader questions either in the Congress or the Administration.

I would argue that the time is ripe for the Budget Committee to play a more prominent role in the performance arena. Pressures to cut deficits and debt levels will be resurgent as the economy sustains its recovery from the great recession. I don't need to tell you that, even once the economy fully recovers, deficits will once again begin to swell with the baby boom retirement and health care costs in full swing. Unlike the current high deficits, we will be forced to confront this next round of deficits to avoid ruinous rounds of inflation and currency depreciation. The high ownership of federal debt by foreign creditors will only accentuate these pressures, possibly in the near term, as nervous investors continually recalculate the relative risks of owning U.S. Treasuries with other financial assets throughout the world.

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[12]A Congressional Research Service report found that mentions by Congressional authorization committees grew to the point where 76 public laws from the 106th Congress (1999-2000) contained statutory or committee report language relating to GPRA and performance measurement Virginia A. McMurtry, Government Performance and Results Act: Overview of Associated Provisions in the 106th Congress, (Washington, D.C.: CRS, 2001).

We know that we will have to make hard choices involving spending and revenues in the relatively near future to confront these fiscal challenges. A performance assessment process may help lay the groundwork for making choices that not only resolve underlying fiscal deficits but also promote improved performance by reexamining existing program commitments. Ideally, such a process would consider the entire portfolio of federal programs and activities addressing similar goals and outcomes. The process would ask such questions as:

- Which goals and programs are most important to the nation?
- Which programs and policies show the greatest effectiveness in achieving these goals?
- Which programs offer greatest efficiency in achieving goals at least cost?
- Which programs are considered to best achieve goals of fairness and equity in the distribution of benefits and costs?

Currently, however, the ability of policymakers to conduct such an annual review process is circumscribed by the structure of the budget process itself. Their ability to compare competing claims relating to common goals across programs and tools of government is highly constrained. There are profound institutional barriers to making tradeoffs between spending programs across different agencies and committees. While the declining share of budgets devoted to discretionary spending are reviewed each year, there is no such annual review for the largest pieces of the budget – entitlements and tax expenditures. Tradeoffs between spending programs and tax expenditures are strongly discouraged, even though both tax credit and spending programs both address common purposes such as financing higher education, child care, job training, low income housing and research and development.[13] The differential ownership of these tools by different congressional committees and federal agencies constitutes the most significant barrier. For instance, the low income housing tax credit – the largest federal subsidy for new low income housing construction – has not even been discussed in HUD's performance plan.

However it is designed, a revitalized allocation process in budgeting will be increasingly important as the fiscal constraints becoming more binding in the future. As health and Social Security continue to eat away at the discretionary room in the budget, there will be fewer resources to respond to new and emergent problems and issues in a dynamic society with a growing population. A healthy budget process should review older claims and programs periodically to free up new resources to fund emerging priorities and programs. Ultimately, a reinvigorated public debate about the level of taxation necessary to support a dynamic and aging society will be necessary as well. .

Portfolio Assessments

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[13] U.S. Government Accountability Office, *Government Performance and Accountability: Tax Expenditures Represent a Substantial Federal Commitment and Need to Be Reexamined*, GAO-05-690, 2005.

The Budget Committee Task Force might start by doing selective assessments of the portfolio of programs addressing common outcomes across the government. Such assessments can review the relative contribution of multiple programs to overarching program goals, e.g. improving food safety, or providing for low income housing, and should include all major tools of government used by the federal government to reach those broad outcomes, including tax expenditures.

The Budget Committee is ideally positioned to lead the way in undertaking these crosscutting assessments. The Committee not only has a governmentwide perspective, but also uses budget functions as the building blocks for the budget resolution. Functions and subfunctions serve as a proxy for broad missions of the government that can be the foundation for conducting systematic performance assessments of the myriad of programs and tools addressing these missions. Moreover, the annual budget focus gives this Committee a routine responsibility that can be coupled to the performance assessment process.

Mapping all related programs contributing to broad outcomes is itself a major research project. But there is help in both the GAO and CBO who have extensive institutional knowledge about the federal programmatic terrain. The following three areas could be promising candidates for reviews. GAO research suggests that each of these areas deals with important national outcomes through a myriad of uncoordinated and stove piped programs that need greater focus, coherence and, possibly, consolidation:

- **Food Safety** – GAO has long identified fragmentation in the nation's food safety inspection system which causes significant performance shortfalls and quality control problems. Fifteen federal agencies collectively administer at least 30 laws related to food safety, with inconsistent oversight and ineffective coordination. Federal spending across two major agencies involved – USDA and FDA – is mismatched with these agencies' relative responsibilities; FDA with responsibility for 80 percent of the food supply spends only 24 percent of total federal food safety dollars. FDA has reported that limited resources and authorities challenge its efforts to carry out its food safety responsibilities. For example, FDA's oversight and enforcement efforts have not kept pace with the growing number of food firms. As a result, FDA has little assurance that companies comply with food-labeling laws and regulations and has limited oversight over imported fresh foods..

  Revamping the oversight of food safety is especially critical in light of the fact that the U.S. imports 60 percent of fresh fruits and vegetables and 75 percent of seafood. In addition, shifting demographics means that more of the U.S. population—including older adults, young children, pregnant women, and immune-compromised individuals—is increasingly susceptible to food-borne illnesses. This fragmented system is the key reason GAO added thefederal oversight of food safety to its high-risk list in 2007.

  Selected countries' food safety systems can offer insights into overseeing our food safety challenges. These systems focus on the entire food supply chain,

from "farm to table"; place primary responsibility for safety on producers; separate risk assessment and risk management; conduct risk-based inspections; and take steps to ensure certain food imports meet equivalent safety standards.

- **Higher Education assistance** – Numerous federal programs are available to students to subsidize higher education costs. As shown in the table below, assistance is provided through various government tools

Type of assistance	Save for future expenses	Pay current expenses	Repay expenses
Grant programs		Pell Grants Supplemental Educational Opportunity Grants	
Loan programs		Subsidized and Unsubsidized Stafford Loans Federal Perkins Loans Federal PLUS Loans	
Tax preferences	Coverdell Educational Savings Accounts Section 529 Qualified Tuition Programs	Hope Credit Lifetime Learning Credit Tuition Deduction	Student Loan Interest Deduction
Work-Study program		Federal Work Study	

Source: GAO.

Source: GAO

GAO's study concluded that these programs present a bewildering array of subsidies that confuses parents and students alike. The fragmentation of programs has prevented some families from taking advantage of assistance they are qualified for. Moreover, unbeknownst to many, participation in some federal subsidies to save for future expenses reduce eligibility for student grants and loans. While fragmentation appears to reduce program participation and targeting, there is very little know about the effectiveness of the portfolio of higher education assistance provided. For instance, it is unclear whether assistance increases the rate of enrollment or the likelihood of student completion of degree requirements. Several studies have, in fact, concluded that tax credits may have the secondary effect of inspiring universities to raise tuition in response

- **Federal disability programs** – GAO has identified over 20 federal agencies and almost 200 federal programs serving individuals with disabilities that provided a wide range of assistance, such as employment-related services, medical care, and monetary support. GAO found that these programs have grown up individually without guidance from unified national goals or indicators. The performance metrics are program specific and provide little or no broader information on the aggregate impacts of federal programs on the quality of life of disabled Americans. For example, the Social Security Administration's (SSA) performance measure of the average time to process a disability claim provides information on how SSA is meeting its program goals with respect to

service delivery, but the measure does not provide direct information on the well-being of the individuals applying for benefits. [14]

Institutionalizing Congressional Performance Reviews

The new Task Force has important work to do just by piloting new models for reviewing performance across government. However, it might also take on the even more knotty question of how to provide for an ongoing role for the Committee and the Congress in undertaking or partnering in performance assessments and reviews.

Several possible approaches exist to enhance Congressional involvement in program assessment:

- A more collaborative approach could be adopted where the new President and the Congress could reach agreement about those areas to be assessed in each budget year. Congress could help ensure that areas that are ripe for reexamination, such as those up for reauthorization, would get attention in the executive review process. The resulting assessment process could have greater credibility in the process. Such a process would require the Congress to articulate its oversight and reexamination priorities centrally and OMB to invite Congress to help determine priorities to guide the executive program assessment process.

- Congress could adopt its own performance assessment and review process linked to the budget process. The Budget Committees could be the vehicle to accomplish this by reporting out a "congressional performance resolution" as part of the budget resolution. Such a resolution could be the vehicle to engage the full Congress in debate over those areas most ripe for review and assessment each year. The resolution could be viewed as a requirement that committees undertake the assessments through hearings, GAO studies and other vehicles that they deem appropriate to reexamine the program areas identified in the resolution.

These assessments could be undertaken by committees and used to inform their own legislative and oversight processes. However, the assessments could also feed into the congressional budget process in the following year. In year 2, the committees could report their findings and policy recommendations as part of the Views and Estimates process, an established part of the budget process.

Alternatively, the assessments could become the basis for a new performance based reconciliation process the next year where the committees would be required to take actions on their findings, with the protections of the reconciliation process in place. This

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[14] U.S. Government Accountability Office, Federal Disability Programs: Coordination Could Facilitate Better Data Collection To Assess the Status of People With Disabilities (GAO-08-872T, June 4, 2008

alternative would obviously be controversial with the committees and many stakeholders as well. Committees might protect their programs, knowing that their assessments might be used against them the next year to force savings. However, if a reconciliation were in the cards anyway for that year, such a process would help provide committees with input into setting the reconciliation targets and process than the current process. [15]

Concluding Observations

We have reached a new and more challenging plateau for performance budgeting, thanks to the progress and persistence of agencies and OMB in generating a supply of useful performance metrics and data. The new challenge is to use this new information more systematically to address the critical budget and performance issues affecting the nation.

With chronic and persistent deficits facing the nation for years to come, performance budgeting can help inform some of the most difficult choices the nation will face. A broad based outcome-oriented performance assessment process has the potential to engage the Congress and the Administration in an important process of reexamining and reforming long standing program structures. As we face the difficult fiscal choices ahead, performance budgeting has the potential of both achieving savings while promoting more effective portfolios of tools to address national outcome goals. As the GAO noted, many of our programs reflect judgments and priorities set years ago and a timely reexamination is essential, regardless of our fiscal bottom line. [16]

Such a process is not easy. I don't need to tell this Committee that there is no low hanging fruit in the federal budget. In fact, performance based assessments will entail the prospect of greater conflict. Taking on reviews of the base of groups of programs is a challenge to be sure. This Committee will most certainly be taking on both the many claimants whose interests are advanced by existing program structures as well as carving out a higher profile in relation to the other committees in the Congress. As you know far better than I, this new role will require artful work to gain the support of other leaders in the Congress, as well as the Administration. It will be important for this process to be highly selective in its reviews, to avoid being overwhelmed by the sheer amount of work as well as the likely political reaction.

Nonetheless, the rewards are substantial. Performance assessments carry the promise of transforming the budget process into a more strategic and forward looking vehicle for setting the nation's priorities. Congressional adoption of performance assessments, coupled with a comparable process in the Administration, will amount to a down payment on the governmentwide performance plan promised under the GPRA in 1993. More importantly, a process that forces claims to compete on performance grounds will go a long way to realizing the goals of a good budget process articulated by a former budget director: to target weak claims, not weak claimants.

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[16] U.S. Government Accountability Office, 21st Century Challenges: Reexamining the Base of the Federal Government (Washington, D.C.: GAO, 2005) GAO-05-325SP

Mr. Chairman, this concludes my statement. I would be glad to respond to any further inquiries by the Committee.

Senator WARNER. Thank you, Dr. Posner. I guess I will take it as kind of a left-handed compliment that Congress is not—what did you say?—"a performance wasteland." And I do think your——

Senator WHITEHOUSE. An oasis.

Senator WARNER. An oasis. But your comment that we do often look at the spend piece but not the tax pieces is terribly important.

Let me again try to limit each of ourselves to 5 minutes so we can make sure everybody gets a chance to get their questions in.

Sir Michael, one of the things that may have been a major difference between the U.K. and the States is that you seem to be able to do a better job of getting out of the silos. Perhaps the governmental structure is so much different, but we have both State, local, and Federal challenges. And then even within the Federal level, we have an enormous challenge getting outside of the agency-by-agency department.

When you took these broad policy goals that you outlined in your project, you had to have some of the similar problems in terms of a policy goal having programmatic efforts in different agencies. How did you overcome that, No. 1? And, No. 2, did you also look at kind of—I believe Senator Whitehouse talked about the back-office functions, HR, procurement, IT, both from an efficiency standpoint and how they led toward your achieving your policy goal?

Mr. BARBER. Thank you for the question. I am not sure whether we do better or worse on the silos than the United States, but we certainly faced that problem. So if I take an example like some of the reforms we are bringing to the criminal justice system where we have to get prosecutors, police, prisons, and various other aspects of the criminal justice system to collaborate around delivery of some of the outcomes like reducing crime, that was very hard work. We had three or four devices that we could use. One was simply using the Prime Minister's authority to get the relevant ministers to collaborate. The second was we used cabinet committees to which we sometimes gave a budget that was not given to any particular department. It was given to a committee to solve a particular problem. So there was a criminal justice system budget that did not go to the home office or the prosecutors or the prisons. It went specifically to that committee, and that budget could only be unlocked when the various players agreed how it was going to be spent.

The other thing was the continuous pursuit by us of delivery of the outcomes. The regular use of the data and the sharing of that data with the Ministers meant that it was persistently on the agenda of the top decisionmakers. You were talking earlier on about the importance of this being an issue for the people at the top. Because the Prime Minister was focused on it, because we were sharing that data, and because the Ministers were engaged, they were under pressure to solve these problems. We did similar things on the national drug strategy. But I would not say for a minute that we completely overcame all those problems. But we did make progress.

On the back-office question, we were focused on delivering the outcomes, so we went right out to the front line, wherever that was, whether it was the trains running on time or the hospitals or whatever, and then came back. And if procurement was part of the

problem, that would get picked up by our process, and then there were other parts of Government dealing with that.

We had a separate part of the treasury called the Office of Government Commerce that dealt with procurement and contracting, and so we would pass the problem on to them.

But we did come across major performance issues that were down to procurement. For example, we discovered that whenever we got new trains supplied to the British railway system, performance got worse. And as amateurs at the center of government asking about performance, we thought this was very strange. Whenever we asked the Department of Transport, "Why does performance get worse when you get new trains?" they said, "Oh, it is teething problems."

So then we did what we often did. We phoned another government. So we called the Government of Singapore and said, "You get trains from the same supplier that we do. When the new trains arrive, does performance get worse?" And they said, "No, it does not. Why would it?" And we said, "You do not have teething problems?" And they said, "Not in Singapore we don't."

So then we go back to the minister, we summon the chief executive of the company that is supplying the trains, and we get the contract changed. So very often the pursuit of performance reveals the problems in the way the contracts are being let and managed.

Senator WARNER. Thank you. I am very intrigued. I am not sure how we could translate that, although maybe the Budget Committee would be the place. This notion of—you said that you would give a budget to actually a committee of agencies, and those funds would not be unlocked until they agreed upon how they would reach a policy goal.

Mr. BARBER. Right.

Senator WARNER. Very interesting.

Mr. BARBER. That is what we did with the criminal justice system, exactly.

Senator WARNER. Very interesting. My time is about up, but, Dr. Posner, could you—one of the things we want to try to do, building on what Sir Michael said, is examples of other States and/or countries that might be good places for us to look for best practices, recognizing that I have only got a few more seconds. I want to make sure everybody else gets their turn.

Mr. POSNER. Yes. Well, of course, you do not need to look farther than Virginia in some sense for a sustained focus on performance. We did a study several years ago at GAO and were really quite surprised at how longstanding many States were in this game. Virginia, the State of Washington, even the State of Maryland often have laws similar to GPRA.

I think some of the most impressive things have happened in the crucible of fiscal crisis. One of the things we have seen in OECD countries is something called program review, which is similar to what we have been talking about with PART. Places like the Netherlands do a series of studies, maybe ten every year, that they call interdepartmental reviews, which is very similar to what you are talking about. They cut across the stovepipes. They involve the finance office and the program office and academics on a task force to look at and evaluate a whole set of programs that reach common

goals, and they come up with recommendations. The parliament accepts them or does not accept them, whatever the case may be. But they have saved extraordinary amounts of money over the years. This has happened in Canada. It has happened in a number of other systems. And so the program reviews are quite an interesting parallel to what you are doing.

Senator WARNER. Thank you.

Senator Bunning.

Senator BUNNING. Thank you, Mr. Chairman.

Sir Michael, Congress and the executive are separate branches of Government here in the United States—I do not have to explain that to you—unlike the United Kingdom. How can we ensure a balance between these branches in performance in oversight? In other words, you were able to get Prime Minister Blair at the table, and you were able to review those things with him and get his direction and certainly get the attention of the people you were reviewing.

Is that a potential problem here?

Mr. BARBER. Well, as I said in my opening remarks, Senator, in reaction to an overbearing British executive, you made Government a whole lot more complicated in this country than we have it.

Senator BUNNING. Yes, we do.

Mr. BARBER. And that has many, many benefits which we have seen over the last 200 years, but it also has some challenges.

The way we thought about this in the Blair government, first of all, we did have the Prime Minister actively involved, and I think in the previous debate one of the Senators was saying it is important to persist with this, not just at the beginning of an administration but right the way through, and Tony Blair did really pay attention to this all the way through, which was very important.

Second, through him and about every year or 6 months, I reported to the cabinet and updated the whole cabinet on the process. And then periodically I was summoned, as in this case, to the Public Administration Committee of the House of Commons, and the Prime Minister reported to what was called the Liaison Committee of Parliament on a two-monthly basis, and then once a year he and I reported through his press conference to the whole general public. So that is how we tried to take the process outside of the executive through those means.

Here, I guess, as you were debating with Jeffrey Zients, getting the executive and the legislature to collaborate around a performance agenda would be the way forward. But it will admittedly be substantially more difficult.

Senator BUNNING. There is a barrier between the executive and the legislative branch, and to get the executive to examine and to get the Congress or the legislative to cooperate always seems to be a very—and, of course, we have outside interests always banging us one way or the other. So it is very difficult to eliminate one agency or one program. They all have their own little fiefdom or their own little lobbyist that they have hired to continue something that might not be productive.

Mr. BARBER. Right.

Senator BUNNING. How do we overcome that? That is what I am trying to find out.

Mr. BARBER. Well, we fed the data we had on which government programs were working and helping to deliver the agreed outcomes. We fed that into the treasury. So for each time the spending review went through, which is every 2 years, where the budgets were reallocated, the treasury was taking account of our data on which of these programs were working and which ones were not. And they themselves began to gather data in a similar way on the programs outside of the priorities. And I think that was important.

The other way the legislature in the U.K. influences this is through the Public Accounts Committee, which is an independent body not usually chaired by the governing party.

The problem that I saw in that committee was very often the debate was about point scoring rather than getting to the fundamental problems of government expenditure. And I think there is a lesson for the Public Accounts Committee in the way that we went about that. They needed to get beneath the relatively shallow point scoring that went on in that committee to the underlying problems of government expenditure and the deficits.

Senator BUNNING. Mr. Posner, in your work on this subject, do you know of any example where a performance evaluation had a real impact on a program or agency's funding, either positive or negative?

Mr. POSNER. I hope so. I spent 30 years of my career at GAO doing that.

Senator BUNNING. Well, that is why I asked the question.

[Laughter.]

Mr. POSNER. I have a self-interest in redeeming my career here. I think there is an impact. It is somewhat indirect. I remember one report we did at GAO on the taxation of the insurance industry that sat on the shelves for several years. In the tax reform deliberation in 1986 in the conference committee, Mr. Rostenkowski called in the GAO staff that prepared that report and adopted the recommendation to change the tax acconting. This action saved considerable Federal revenues and helped achieve fiscal balance for the bill itself. That is the discursive—

Senator BUNNING. For 8 years it sat.

Mr. POSNER. For 8 years it sat, so you have—you know, it is water on a stone in some cases. GAO's work on student loans showed 20 percent of student loans were in default in the early 1990's. We worked together with the executive branch and the congressional committees to design a package of wage garnishment and a program to kick out some of the proprietary schools that were the most seriously in default from their students, and that student default rate has been cut from 20 percent to 8 percent.

There are real changes that happened as a result of evaluations. The whole Medicare program has taken advantage of some efficiencies as a result of work that GAO and others in the evaluation community have done. Typically it happens when there is a window of opportunity that opens in a budget resolution, for example, and suddenly everything becomes possible, and you have a window of opportunity opening. And then people do reach for the studies to kind of at least rationalize or find real budget cuts when it is needed.

Tthat kind of process requires some patience on the part of analysts to really keep your powder dry.

I would say that on the question about our system, there is no question it is more difficult to achieve change here. I remember when President Clinton signed performance agreements and targets with his Cabinet Secretaries, Secretary Babbitt of the Interior Department came up to the Hill and was talking with Mr. Conyers, who chaired one of his oversight committees. And Mr. Conyers said, "I understand that you have agreed to a series of objectives on performance with the President." And he says, "Where is your agreement with me, Mr. Secretary?" And, of course, he had not been part of that.

So the question is: How can you and the Congress collaborate with people in OMB and the agencies early in the process to agree on the performance targets? And when that happens, it is quite a remarkable synergy. When IRS and the Congress agreed on goals for electronic processing of tax returns, that really had a big impact on the efficiency of the tax system, for example, so it can happen.

Senator BUNNING. My time is past due, and I appreciate your answer. Thank you.

Senator WARNER. My hope is, Senator Bunning, with the red ink as far as the eye can see, if we do not see this as an opportunity to actually move a little more quickly, then shame on us.

Senator Whitehouse.

Senator WHITEHOUSE. Thank you, Senator Warner.

Sir Michael, the enterprise that you undertook for the Prime Minister to run the Delivery Unit had both an efficiency component and a prioritization component. One could imagine that a Delivery Unit could be very successful at producing the 20 top priorities for the Prime Minister at the expense of cannibalizing every other program that those ministries were obliged to discharge.

How effective were you at protecting the non-priority programs while you were emphasizing and succeeding with the delivery of the programs that had been assigned to the Delivery Unit?

Mr. BARBER. Thank you for the question. Can I just comment before I answer that on this question of evaluations. I think there are two different types of evaluation. One is post hoc evaluations where something has happened and you are trying to understand it, and then you are trying to improve performance in the future. The other are evaluations which we tried to develop in the Delivery Unit where inside the executive you are trying to evaluate a program before there is a problem and solve it in advance so that you avoid crisis management. And those things need to be real-time and quite brief, whereas the post hoc evaluations can be in-depth and profound. But I think both are necessary to get effective delivery.

On the question you have just asked, which I think is very important, we clearly focused on the priorities. That is what it means to have priorities, and the Prime Minister was very decisive in that respect, and I think that was important.

What we said to the departments was, "We are going to focus on the delivery of these priorities. Can you anticipate for us what you think the perverse consequences might be or the unintended consequences?" So we would then measure those things to make sure

either that it turned out not to be the case, or if they were happening, that was a tradeoff we wanted to make.

So, for example, if you take a crime topic, as we were trying to do in 2002, if you want to reduce street crime, mugging and that kind of thing, which we did very well on, the police said, "We will be able to reduce this because we will move police on to this, but other crimes will get worse." We said, "We will check." What we discovered, actually, was that the police forces that did best in reducing street crime also reduced other crimes, because good policing is good policing. And many times the unintended consequences or perverse consequences do not happen, but you need to know in order to win the argument.

Clearly, if you are going to set priorities—sorry. If you do not set priorities, it is very difficult to achieve anything. But you do need to know what the consequences are.

And I would say, being straightforward about this, we did see the best officials being moved onto these priority programs. After all, they were the government's priorities, and that may have had delaying consequences on some of the other parts of the agenda. But any government has to set priorities if it is going to achieve anything, and you just have to watch that the costs that you pay in the other areas are not too high.

Senator WHITEHOUSE. Yes, we just need to make sure that that distinction is clear in this Task Force because we are not a prioritization Task Force. We do not have that authority or role. We really are trying to drive the efficiency equation.

Dr. Posner, Senator Warner said something earlier about you get what you measure, or words to that effect. The way I have heard it says is, "You do not get what you expect. You get what you inspect."

You have given, I think, very thoughtful testimony about the role of this Committee, and as we are getting started and feeling our way into this new area, I would encourage you to stay in touch with us. I think it was very helpful testimony. As you know, we are active from January 1st until the budget passes, usually in April, and then we have time available to move onto other projects. We do not quite hibernate particularly the staff do not, because the next year is coming. But we do have some time and effort to dedicate to this, and we do have the ability in our oversight function to inspect. And I hope that you will continue to be helpful to us at teeing up not only bests but also worsts that you think might be helpful to play a little bit of the legislative searchlight over.

Mr. POSNER. Absolutely.

Senator WHITEHOUSE. And the last question for Sir Michael, what was the role of Parliament in your Delivery Unit, if any? Did you have a consultative function? Did you have a pre-warning function? Did you just let them know if a particular prerogative was being effected?

Mr. BARBER. As you know, in the British Parliament both the Prime Minister weekly through the question time and ministers monthly through their own question time in their own area are accountable to Parliament. So I was accountable to the Prime Minister, and he was accountable to Parliament. So I was personally and the Delivery generally was rarely summoned to Parliament, al-

though I did give airing to the Public Administration Select Committee and the Treasury Select Committee. But basically the accountability to Parliament was through the ministers, and we were an internal function inside the executive helping the departments solve their problems. And as I said in my testimony, at the beginning the departments were somewhat suspicious of us thinking it was the Prime Minister's spies checking up on them. But after a while, they found us helpful because we kept the focus on the priorities, we helped them solve their problems, and we gave them the credit. But it was very important the way we functioned that we did not get in the way of the direct accountability of ministers to Parliament, and so we were generally in the background in that process.

Senator WHITEHOUSE. Thank you, Sir Michael.

Just before we conclude, I want to take a moment and express my appreciation to Senator Warner for having stepped up to this. I think even in this first hearing we have seen the qualities of energy and inquiry that I think will help make this a very valuable Task Force, and certainly he has a very well established record from his time as Governor in this performance area. And an obsession with performance, if I have the quotation right, I think is a very good thing for us to have, and I think that this Committee, given its hiatus, its post-budget hiatus, does have significant opportunities here to help either facilitate or drive this agenda.

So I am extremely grateful to Senator Warner and wish to conclude with that observation.

Senator WARNER. Well, thank you, Senator Whitehouse, and thank you for your participation. And since it was your original idea to the Chairman, I thank you for coming up with the idea and volunteering my service. I feel we have had a very productive morning. I want to thank again the Chairman and the Ranking Member and all the members who participated. And I want to thank the staff as well who have done a great deal of work getting ready for this, and as we move forward, I think the working group will focus on a few of these policy areas, and we will try to do this policy mapping and look at how we can get outside these silos.

I want to again thank all of the witnesses but particularly Sir Michael for your examples of what happened and what worked and did not work in the U.K. and you, Dr. Posner, for your consultation, I know, both in advance of this hearing, and echoing what Senator Whitehouse said, we look forward to partnering with you on an ongoing basis.

For those in the room, this is a beginning of what we hope will be an iterative process working with the administration. I know I had a chance to meet a few of the folks who were here. There is a lot of interest in this area. We are open to—we are kind of going in uncharted waters here a little bit. We welcome any other additional input.

I think at the end of the day clearly the goal, the actual implementation will be the role and function of the executive and Mr. Zients. But I think the Congress can be an active partner to make sure that this effort, unlike perhaps past administration efforts, does not start with great fanfare but then fade off.

So I thank the witnesses, I thank all of my colleagues for participating, and the hearing is adjourned.

[Whereupon, at 11:44 a.m., the Committee was adjourned.]

Bill Nelson

Question for the Record
Senate Budget Committee Hearing
October 29, 2009
Sen. Bill Nelson

For Dr. Paul Posner: Florida has a long history of implementing performance budgeting. What lessons can we learn from the State's victories and difficulties that would be helpful in guiding our efforts?

States and performance budgeting

States have sustained performance management over many years. In fact, the federal government's enactment of the Government Performance and Results Act in 1993 was influenced by comparable initiatives at the state and local level.

A GAO study in 2005 showed that states' engagement with performance management and budgeting has been long standing.[1] Many have enacted frameworks similar to the Government Performance and Results Act of 1993 requiring state agencies to develop plans, measures and public reports. Some states, like Texas, have restructured their appropriations accounts to align budgeting with performance goal structures.

Facing chronic fiscal pressures, the GAO found that states in recent years have gone beyond across the board cuts and other budget driven strategies to use performance metrics and analysis to target reductions and priorities. In recent years, various states have reexamined their various programs and priorities through such mechanisms as efficiency commissions and reprioritization exercises. For example, Maryland, Virginia, and Washington developed prioritization efforts that frame trade-offs according to how programs contribute to achieving statewide goals

The state of Washington adopted what it calls a statewide results-based approach to budgeting called "Priorities of Government" to address a budgetary shortfall of $2.4 billion for the 2003-2005 biennium. Under this system, programs and activities were reviewed and ranked based on their relative contribution to eleven broader performance goals, leading to cuts for programs below the line of available revenues.

The National Conference of State Legislatures reported in 2007 that 22 state legislatures used performance measures in appropriations. State legislators also sometimes used performance information more directly to link appropriations to expected results by setting performance targets for service delivery. For example, during its 2003 special session, the Arizona legislature established a set of performance targets for the Child Protective Services (CPS) and tied portions of the CPS appropriation to those targets. The legislature appropriated nearly $2 million in staffing salaries "to meet national staffing standards for child protective service caseloads," and another approximately $1.7 million in an effort "to fund a one hundred percent investigation rate."

Florida has been a leading state in using performance in budgeting for both executive and legislative decisions. Notably, the state's performance budgeting reform initiated in 1994 featured a strong role for the legislature in reviewing state agency performance targets. Moreover, the state created a new legislative evaluation agency to review performance data, the Office of Program Policy Analysis and Government Accountability (OPPAGA). In 2005, OPPAGA had a staff of over 100 people dedicated to doing performance reviews of agencies and tracking measures on program performance. Governing magazine noted in 2005

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[1] U.S. Government Accountability Office, *Performance Budgeting: States' Experiences Can Inform Federal Efforts* (GAO-05-215, 2005)

that OPPAGA was one of the most effective legislative performance review units in the nation.

More recently, there have been changes to the Florida process. The legislature's use of measures in appropriations has receded, according to some reports, as measures are now primarily used by agency supervisors for internal management. In 2006, the legislature amended the process to separate the approval of performance measures from the legislative appropriations process. A 2007 National Conference of State Legislatures report concluded that several states had moved away from the performance budgeting approach and that Florida's program was "endangered". Some have suggested that term limits have limited the capacity and persistence of Florida legislators in monitoring agency performance measures.

Implications

The states' experiences suggest that there is strong and persistent interest in producing performance data on state programs and using that data to manage. Systematic initiatives requiring plans, metrics, and reports are broad based. Like the federal government, states have also attempted to link these indicators to the budget. However, nearly all states have realized that performance cannot, and should not, take politics out of budgeting. Performance can raise new questions for elected officials but it cannot make choices easier or automatic. Performance cannot, by itself, resolve difficult questions about how much scarce budget resources should be spent on education vs. transportation, for instance. Moreover, there is no linear straightforward budgetary answer to performance trends. For instance, if outcomes worsen in drug programs, it is not likely that state or federal officials will cut money for drug programs, but it may help focus questions on why such trends exist.

The states' experiences also suggest that sustaining interest in performance budgeting by legislatures can be a challenge. Performance information can add to complexity and makes budgeting potentially more demanding. Indeed, it can increase conflict by more manifestly illustrating the stakes of budget decisions in terms of lives saved or lost, among other outcomes. Legislatures with high turnover in particular have faced challenges as they lose the institutional knowledge and expertise necessary to interpret and digest the voluminous information being produced.

Legislative use of information is predicated on the level of trust and confidence they have in the agencies that produce it. If the level of conflict between legislatures and the executive is high, this conflict may extend to the performance metrics as well. When trust in executives is low, legislators will tend to revert to input controls such as focusing on FTE levels and object of expenditures as the basis for accountability, as control becomes more important than performance in these kinds of settings.

One other important factor is evident. Legislatures need help from a capable staff unit to digest and filter the vast amounts of performance information coming from agencies. Maryland's legislative staff, for instance, produces straightforward short papers laying out performance trends in specific agencies in a way that is clear and compelling enough for busy legislators to grasp and focus.

BIPARTISAN PROCESS PROPOSALS FOR LONG-TERM FISCAL STABILITY

TUESDAY, NOVEMBER 10, 2009

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, DC.

The Committee met, pursuant to notice, at 9:30 a.m., in room SD–608, Dirksen Senate Office Building, Hon. Kent Conrad, Chairman of the Committee, presiding.

Present: Senators Conrad, Whitehouse, Warner, Gregg, Sessions, and Alexander.

Staff present: Mary Ann Naylor, Majority Staff Director; and Cheri Reidy, Minority Staff Director.

OPENING STATEMENT OF CHAIRMAN CONRAD

Chairman CONRAD. Welcome to today's hearing that will focus on proposals to establish a special bipartisan process to address the Nation's unsustainable long-term fiscal imbalance.

We have a number of distinguished witnesses. Our first panel will include Senator Lieberman, Senator Voinovich, Senator Feinstein, Senator Bayh, Representative Cooper, and Representative Wolf. Senator Lieberman and Senator Voinovich teamed up to develop a proposal for a special bipartisan process. Senator Feinstein originally introduced a proposal with Senator Domenici and is now working with Senator Cornyn. Senator Bayh cosponsored the Conrad-Gregg bipartisan fiscal task force proposal and is a leading advocate for establishing such a bipartisan process.

Representatives Cooper and Wolf authored their own bipartisan process proposal on the House side, which is very thoughtful and very constructive.

All of your proposals are similar to what Senator Gregg and I have offered in many respects. Most importantly, we all agree that some kind of special bipartisan process is going to be needed. The regular legislative process is simply not going to get it done.

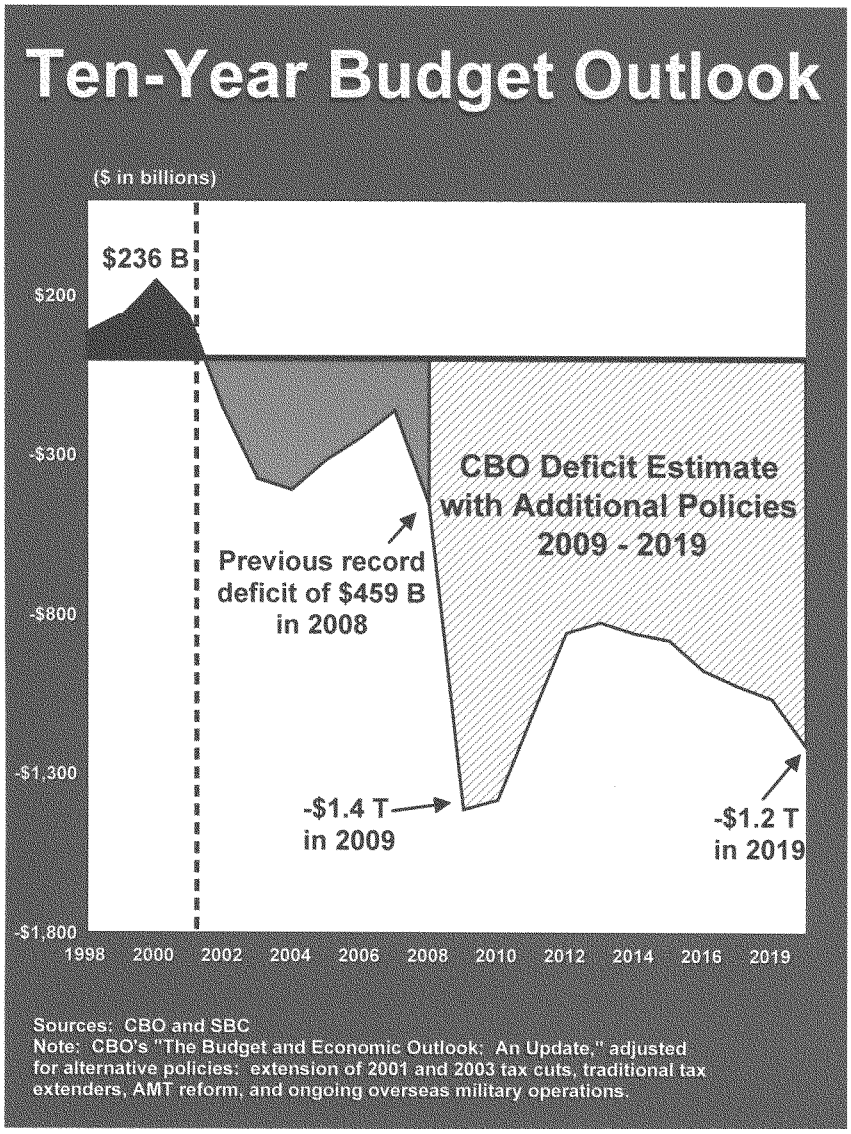
Our second panel includes David Walker, the former Comptroller General and now head of the Peter Peterson Foundation; Doug Holtz-Eakin, the former Director of the Congressional Budget Office and now head of DHE Consulting; William Galston, a senior fellow at the Brookings Institution; and Maya MacGuineas, the President of the Committee for a Responsible Federal Budget.

Before we turn to the first panel, I would like to highlight the situation that we face. The health care reform effort currently underway has the potential to improve our long-term debt outlook, but it will not be enough. We must also address the demographic

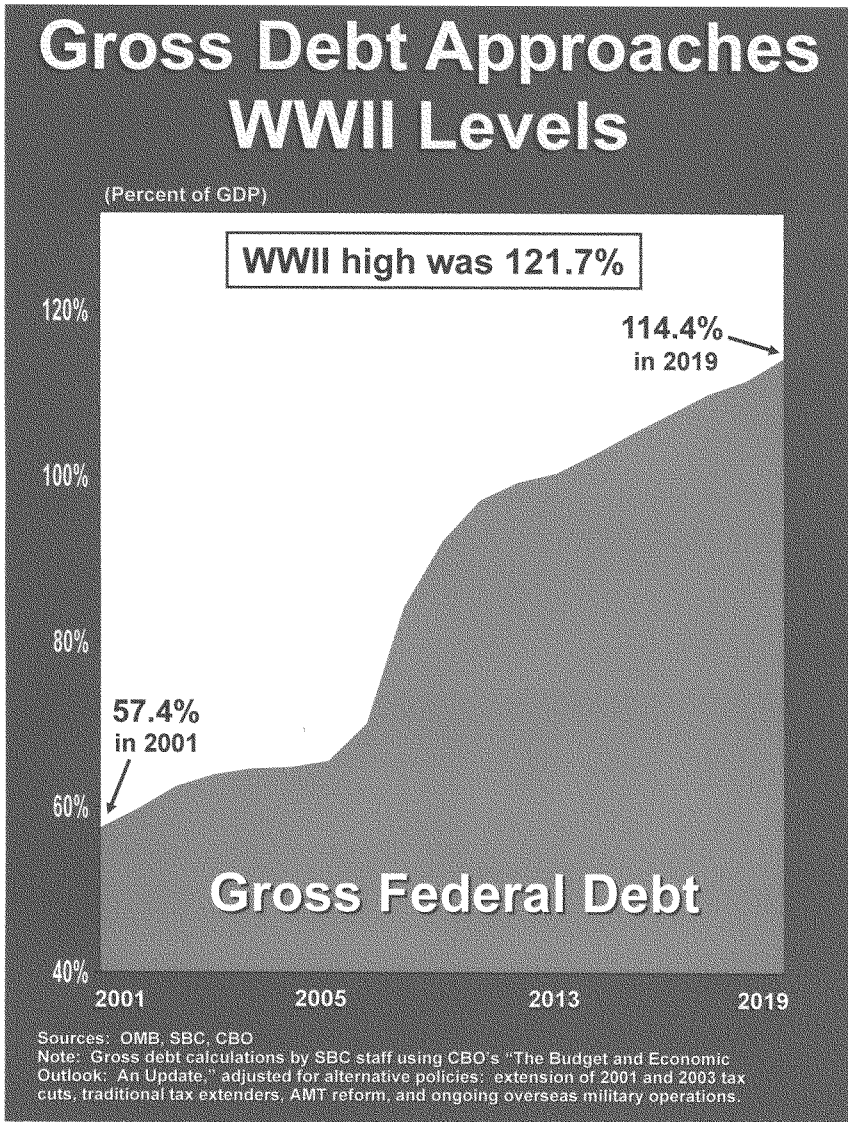
challenge we face in Social Security and the revenue challenge we face from an outdated and inefficient revenue system.

Ideally, these problems would be addressed through the regular order. The regular order would mean that House and Senate committees with jurisdiction over health, retirement, and revenue issues would individually take up legislation to address the imbalances in their particular areas of legislative responsibility and then move that legislation through Congress. The simple reality is that will never happen.

I want to go to a first slide here because I want to remind everyone of the dramatic deterioration we have seen in our Nation's budget picture. The final deficit total in 2009 was $1.4 trillion. Not million, not billion. Trillion. That should sober us all—$1.4 trillion.



Looking over the next 10 years, we see a sea of red ink. Let us go to the second slide if we could.



The deficits have led to an explosion of debt. Under the 10-year outlook I just described, gross Federal debt would rise to more than 114 percent of gross domestic product by 2019. That is approaching a record 121 percent of GDP debt level that was reached at the end of World War II.

Slide 3. We need to remember that to finance these deficits and debt, we are becoming increasingly indebted to foreign nations. Last year, 68 percent of our debt was financed by foreign entities. Here is the latest tally of the top ten foreign holders of our national debt. We now owe China almost $800 billion, we owe Japan $730 billion, and on and on it goes.

The worsening budget outlook can also be seen in the worsening status of the Social Security and Medicare trust funds. Because of the weak economy, the Social Security trust fund is temporarily cash negative right now. It is projected to go permanently cash negative in 2016 and to be insolvent by 2037—4 years earlier than forecast just last year. The Medicare Hospital Insurance trust fund is in even worse shape. It went cash negative last year and is projected to be insolvent in 2017—2 years earlier than forecast just last year.

Current Status of Social Security and Medicare Trust Funds

Social Security

- Cash negative in 2016
- Insolvent in 2037 – 4 years earlier than forecast last year

Medicare (HI trust fund)

- Went cash negative in 2008
- Insolvent in 2017 – 2 years earlier than forecast last year

We also have a severe revenue problem. We have an outdated and inefficient tax system that is in desperate need of reform. Here are some of the reasons that I believe we need thoroughgoing tax reform.

The Need for Tax Reform

- Tax system out of date and hurting U.S. competitiveness
- Hemorrhaging revenue – tax gap, tax havens, abusive shelters
- AMT problem threatening millions of middle-class taxpayers
- Long-term imbalance must be addressed
- Simplification and reform keep rates low

No. 1, our tax system is simply out of date and is hurting U.S. competitiveness.

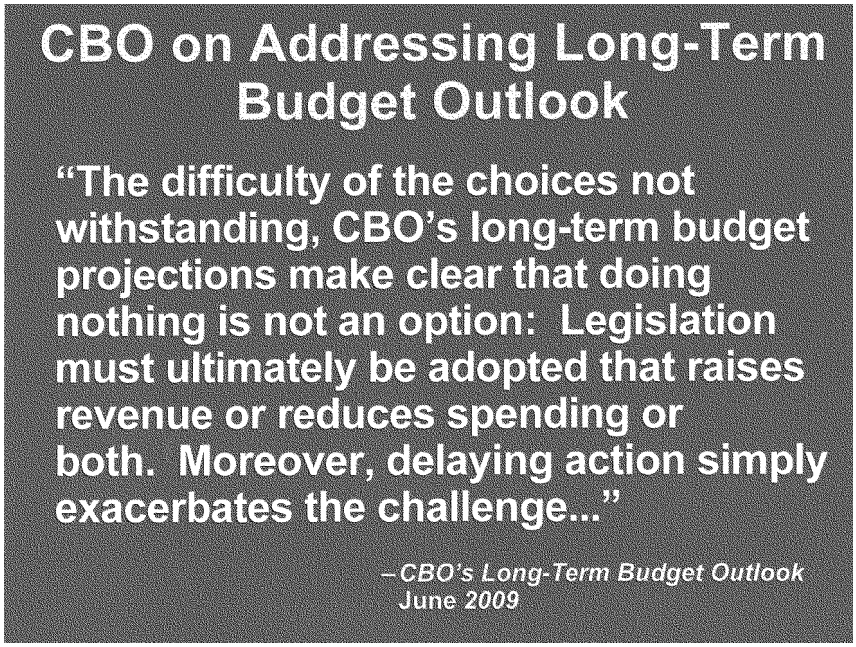
Second, we are hemorrhaging revenue through the tax gap, offshore tax havens, and abusive tax shelters.

Third, the alternative minimum tax continues to threaten millions of middle-class taxpayers and has to be fixed.

Fourth, we have a long-term fiscal imbalance that must be addressed.

And, fifth, simplification and reform can help keep rates low.

Here is how the Congressional Budget Office summed up the need for action on our long-term fiscal situation. This is what they said in a hearing: "The difficulty of the choices notwithstanding, CBO's long-term budget projections make clear that doing nothing is not an option." Doing nothing is not an option. Legislation must ultimately be adopted that raises revenue or reduces spending, or both. Moreover, delaying action simply exacerbates the challenge.



I think there is growing consensus that the only way we are going to get this done is through the enactment of a special bipartisan process. This is what House Majority Leader Steny Hoyer said in testimony before this Committee in 2007, and I quote: "I would like to believe that Congress could address these issues through the regular legislative process. However, the experience of recent years suggests that it is extremely difficult in the current political environment. I have reluctantly concluded that a task force or commission may be the best way to bring us to the place where we can spur action on this issue and reach agreement on solutions."

House Majority Leader Hoyer on Need for Special Bipartisan Process to Address Long-Term Fiscal Challenges

"I would like to believe that Congress could address these issues through the regular legislative process. However, the experience of recent years suggests that this is extremely difficult in the current political environment... I have reluctantly concluded that a task force or commission may be the best way to bring us to the place where we can spur action on this issue and reach agreement on solutions."

– House Majority Leader Steny Hoyer (D-MD)
Testimony During Senate Budget Committee Hearing on Conrad/Gregg Bipartisan Fiscal Task Force Bill
October 31, 2007

And here is what Leon Panetta, who is former Chairman of the House Budget Committee, former OMB Director, and former chief of staff to the President of the United States, said at the same hearing: "It will never happen. The committees of jurisdiction will never take on the kind of challenges that are involved in this kind of effort. If you just leave them under their own jurisdictions, that will never happen."

Then-CRFB Co-Chairman Panetta on Need for Special Bipartisan Process to Address Long-Term Fiscal Challenges

"It'll never happen. The committees of jurisdiction will never take on the kind of challenges that are involved in this kind of effort.... If you just leave them under their own jurisdictions, that will never happen."

– Then-Committee for a Responsible Federal Budget Co-Chairman Leon Panetta
Testimony During Senate Budget Committee Hearing on Conrad/Gregg Bipartisan Fiscal Task Force Bill
October 31, 2007

And earlier this year, the Treasury Secretary, Mr. Geithner, said: "It is going to require a different approach if we are going to solve the long-term fiscal imbalance. It is going to require a fundamental change in approach because I don't see realistically how we're going to get there through the existing mechanisms."

Treasury Secretary Geithner on Need for New Approach to Address Long-Term Fiscal Challenges

"...[I]t is going to require a different approach if we're going to solve [the long-term fiscal imbalance].... It's going to require a fundamental change in approach, because I don't see realistically how we're going to get there through the existing mechanisms."

– Treasury Secretary Timothy Geithner
Testimony before Senate Budget Committee
February 11, 2009

A Washington Post editorial last month said the same thing. It stated: "The Medicare payment formula is one of a number of fiscal time bombs that will need diffusing soon. The alternative minimum tax, the Bush tax cuts, the estate tax, other expiring tax provisions—this is an enormous problem practically and politically. It requires a comprehensive solution, one that probably cannot be achieved within the existing political framework, but that will require some kind of bipartisan commission to craft."

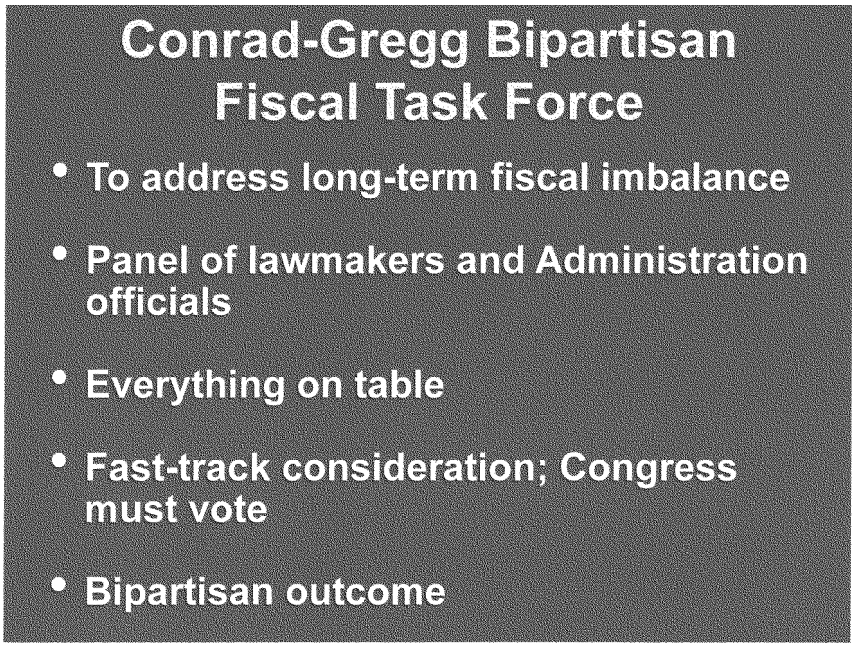
Washington Post on Need for Special Bipartisan Process to Address Long-Term Fiscal Challenges

"The Medicare payment formula is one of a number of fiscal time bombs that will need defusing soon: the alternative minimum tax, the Bush tax cuts, the estate tax, other expiring tax provisions....

"This is an enormous problem, practically and politically. It requires a comprehensive solution – one that probably cannot be achieved within the existing political framework but that will require some kind of bipartisan commission to craft."

– *Washington Post* editorial
October 19, 2009

And, finally, let me conclude by reviewing the highlights of the Conrad-Gregg bipartisan fiscal task force proposal, and I might say that yesterday Senator Gregg and I reached agreement on the composition of such a task force, and we will be unveiling that at a later time. Today we wanted to hear from all of our other colleagues before we reach a conclusion.



Many of the components of our task force are similar to the proposals of the members on the first panel. The task force would be tasked with addressing our long-term fiscal imbalance. It would consist of a panel of lawmakers and administration officials. Everything would be on the table. The panel's legislative proposal would get fast-track consideration, and Congress would have to vote on the proposal. And it would be designed to ensure a bipartisan outcome.

The last point, I believe, is key to any proposal. The only way the changes needed are going to be adopted is if we have a bipartisan outcome. No one party can or will do this on its own. The record is as clear as it can be on that. Both parties must be invested in the outcome and committed to its success.

With that, Senator Sessions, did you want to make a statement on behalf of your side? Or do you want to wait until Senator Gregg arrives for his statement?

OPENING STATEMENT OF SENATOR SESSIONS

Senator SESSIONS. I would be glad to wait for Senator Gregg, but a couple of minutes would be sufficient for something that I would like to share.

I have given a lot of thought to this, and I know that this commission has potential. I believe from a political sense this debt limit extension provides an opportunity to do something that would not happen any other time.

I would point out that we have to recognize that the interest on the public debt was $170 billion this past year. According to CBO under President Obama's 10-year budget, by 2019, 1 year's interest payments will be $800 billion. So when you think about it, we

spend $100 billion on education, $40 to $50 billion on roads, and to go from 170 to 800 billion will crowd out spending. One of the most dramatically dangerous things in the budget that has been submitted is that in the tenth year the deficit is going to be over $900 billion, almost $1 trillion in 1 year, the tenth year, and there is no projection that show the deficits going down and no projection showing any reform.

So I think this kind of fundamental effort that we have talked about but have not done is important. I would note that of the discretionary spending bills, not counting the incredible stimulus package, Transportation increased 23 percent; Interior-EPA increased 17 percent. That means a baseline budget would double in less than 5 years. There was also a 15-percent increase in Agriculture, a 33-percent increase in Foreign Ops Appropriations.

So those are baseline budget bills that indicate we are not in sync with the American people who would like to see us do something, Mr. Chairman. I think the commission could at least could be a start, but at some point we have to stop these huge increases in spending.

Thank you.

Chairman CONRAD. Thank you.

Now we will turn to our distinguished panel of witnesses. Senator Lieberman, who has another Committee to chair at 10 o'clock, will go first, and then we will go to Senator Voinovich, Senator Feinstein, Senator Bayh, and Representatives Cooper and Wolf.

Welcome, Senator Lieberman. We appreciate very much the effort that you and Senator Voinovich have initiated to make a proposal with respect to a special process, and welcome to the Budget Committee.

STATEMENT OF HON. JOSEPH I. LIEBERMAN, A UNITED STATES SENATOR FROM THE STATE OF CONNECTICUT

Senator LIEBERMAN. Thank you, Mr. Chairman. Thanks to the members of the Committee. I am honored to be here with Senator Voinovich, my cosponsor of the Securing America's Future Economy Commission Act, the SAFE Commission Act, and Senators Feinstein and Bayh and Congressmen Cooper and Wolf.

I thank you for convening this hearing. I thank you for your leadership on this issue. You and I have talked about this a lot. I am going to put my statement in the record, and I just want to add a few points. Just to say to you personally and to Senator Gregg in absentia, the two of you have given extraordinary service to our country, but I honestly believe that if you can lead the Senate to finally do something about our fiscally irresponsible ways and the skyrocketing national debt, you will have done the greatest service that anybody could do to our country today to protect our future, to protect the American dream, to make the country as full of opportunity for our children and grandchildren as it has been for us.

When I hear you say that by 2019, I guess—maybe Senator Sessions said it—$800 billion in interest payments on the debt, I am thinking of my 21-year-old daughter, just got married, 10 years from now, 31, and she and her husband are going to have to pay their share of an $800 billion interest payment that will not buy

them anything—no service, no security, no better environment, no health care for those who cannot afford it. This is an outrage.

You have made the statement of the problem: $12 trillion of debt today, commitments that are in law already that will add $9 trillion to that in the next 10 years, $21 trillion. It is, as we say, unsustainable. But what does it mean when we say unsustainable. To me it means that we have reached a tipping point, and if we don't do something, America's economy is going to go over the cliff. Unsustainable means that at some point we are going to have to raise interest rates higher and higher to get people to buy our notes. That is going to bring about in its wake inflation and then hyperinflation. We are going to start printing more dollars. And the value of a dollar will fall, perhaps even collapse.

The overall effect of that will be that our country may be back in a recession or, worse, even deeper than the recession that we are now fighting our way out of. So we have to get together across party lines and do something to secure America's future.

Second, Senator Voinovich and I have introduced this proposal. It is very much like the proposal that Congressman Wolf and Congressman Cooper have introduced in the House and, frankly, not that different from the Conrad-Gregg proposal, and Senator Feinstein and Senator Bayh and all the others as well. The basic idea here is that we have proven ourselves as an institution—Congress, political leadership, President—incapable of dealing with this problem of stopping the indebtedness. Our incapability does not originate from bad intentions. Our intentions are very good. We simply are unwilling to pay the cost of our intentions. And if you needed any proof of it, you have it in the last couple of weeks here when all of a sudden we were being asked—and it looks like we will be asked again—to commit ourselves to over $200 billion, $250 billion in the so-called SGR, what we call the Doctor's Fix program, that is a good idea to do. But if we cannot pay for it, we cannot do it.

We have come to a time when in the interest of our future as a country, as a viable economy, we simply have to start saying no. And as an institution in our normal course and the regular order, we are not capable of it, I am afraid. That is what the record shows.

So we need an extraordinary position. We need an irregular order, if I can put it that way, and all these commissions intend to do that, to take it out of the political process, to have mostly Members of Congress, maybe some executive branch people, pull them out of the process and set them on a mission that is as important as any that they have ever been asked to perform for their country, which is to get us out of hock and back toward fiscal balance, and not to have it—we are not trying to stack this commission so one side wins and the other side loses. We are trying to organize it so that in the end there has to be a bipartisan agreement of the commission members which will make it possible to have a bipartisan agreement on the floor and hopefully both chambers and hopefully by the President as well.

I also feel very strongly that in the end we have to break out of the regular order and simply not allow the normal amendments to the process, because if this commission does its job and presents it to us, it is going to be very controversial. It is going to be unpopu-

lar with some interest groups. And the tendency will be for amendments to be introduced and passed which will take out the tough stuff, the restraint, and leave in the spending, and we will be back in the same tipping point to real problems.

I think the public has hit a tipping point here, too. I think the American people get it, even though the debt is--the worst consequences of the debt are over the horizon, they see it coming now, and I think they have felt it with a particular intensity through this recession because so many middle-class families are tightening their belts. They are putting money in the bank that they normally spend because they are worried about the future. And then they look at Washington, and we just keep spending. And there is nothing in the bank. So I think they want us to act in this way, and they understand how important it is.

I think this is going to be tough politically, and we have to, together, those of us who feel strongly about this, seize every opportunity that we have to try to make progress in exactly the way we are all talking about.

I just want to indicate for the record, as you know, Mr. Chairman, on October 14th ten Members of the Senate—in this case, all members of the Democratic Caucus—wrote to Leader Reid and described the problem as you and I have described and said in conclusion, "We strongly believe, as part of the debate to increase the debt limit, Congress needs to put in place a special process that allows Congress and the administration to face up to our Nation's long-term fiscal imbalances and allows for deliberation and a vote on a comprehensive package addressing these issues."

As we all know, we are going to have to increase the debt limit in December. I hope that is the moment where we also do something else we have to do, which is to create a commission such as you have described and Senator Voinovich and I would create under our bill that would restore fiscal balance and hope for a better economic future for this great country of ours.

Thank you.

Chairman CONRAD. Thank you, Senator Lieberman. Thank you for your leadership. We deeply appreciate the seriousness of purpose that you have brought to this task to be part of the group of ten that wrote that letter, and I joined—I did not sign that letter because it is supporting something that we are going to be talking about at this meeting.

Senator LIEBERMAN. Understood.

Chairman CONRAD. I completely agree with the contents of that letter, and I have told the group that any subsequent communication, now that we have had this hearing, I would feel free to sign as well.

Senator LIEBERMAN. Thank you.

Chairman CONRAD. With that, Senator Gregg has now joined us. Senator Gregg, would you like to make an opening statement now or would you prefer to go to Senator——

OPENING STATEMENT OF SENATOR GREGG

Senator GREGG. Just a brief statement because I want to hear from the panel, and I think the fact that the membership of this panel is very strong and consists of experts that basically represent

a cross section of the Congress that it is a very good sign for this effort, which is absolutely critical, as the Chairman, I know, has outlined, but especially in the context of the health care bill, because of the fact that with this health care bill we are looking at a massive expansion in the size of the Government, which will potentially create a new entitlement of immense proportions, which will be unpaid for, I am sure, over time.

It is necessary that we proceed now to face up to the long-term structural instability of our fiscal situation as a Nation, and if we do not do that, we will pass on to our children a country which gives them less of a standard of living than we have had. This will put them in a position where the debt will be so high and so unsustainable that they will not be able to bring it under control without either massive tax increases or significant inflation—neither one of which will lead to a better Nation.

So this initiative is an attempt to try to address these concerns and to do it in a constructive, bipartisan way, and I think we all recognize that if we do not join together in a bipartisan and fair way, we will never get anything done, and the reason it has to be done in this manner is because we have proven that the regular legislative order does not work.

I have further statements that I make, but I want to hear from the panel, and so, Mr. Chairman, I will yield back.

Chairman CONRAD. Thank you.

I would also turn to Senator Warner for any opening observations he might have, and then we will go to Senator Voinovich. Senator Warner?

OPENING STATEMENT OF SENATOR WARNER

Senator WARNER. Well, thank you, Mr. Chairman, and I am pleased to see your leadership and Senator Gregg's leadership on this issue.

Senator Lieberman mentioned the letter, and one of the things that was, I think, important about the letter was that of the ten Democrats, a number of us were new members. I am proud to be one of the signatories to that letter. And I think there is a real occasion here for a grand bargain with the American people that as we wrestle with health care, try to get it right, that at the same time taking on this issue of the deficit in this bipartisan fashion is terribly important, and I think at least from our side of the aisle, and I know some of our Republican colleagues, the newer members who may not have been as entwined in the system bring perhaps a fresh view. I came from a Governorship where we actually had to balance our budget each year, and we maintained that AAA bond rating, something that Congressman Wolf and I have worked together on in Virginia over the years. And I commend your efforts.

I would simply say, you know, there are legitimate questions about the structure of this commission, and my only hope as a new member would be that we not only have it bipartisan but that those members, whether they are members or outsiders—this is so important—that they would have to come with an approach that everything truly is on the table, that no program is sacred; that, yes, they have to look at cuts; that we cannot rule out revenues; that all of this has to be up for grabs. And my only hope would be

that, you know, if we move down this path, people on both sides would not come with entrenched views about whether it is sacred cows on one side or ruling out revenues on the other side. That would defeat the purpose before we would even get started.

So I thank the Chairman and the Ranking Member for their leadership on this, and there is an awful lot of new members from both sides of the aisle, but particularly on our side of the aisle, that want to be part of this effort and be supportive.

Thank you.

Chairman CONRAD. Thank you, Senator Warner, and thank you for your energy and vision on this issue and so many others that come before this Committee.

Senator Voinovich has been as committed as any member to the need to deal with our long-term debt. And Senator Voinovich has not just talked about it. He has not only talked the talk, he has walked the walk, and he is before us, along with Senator Lieberman, with a specific proposal. And over and over and over, Senator Voinovich has demonstrated his commitment to doing something serious and significant to get our long-term debt under control.

We especially welcome you, Senator Voinovich, before the Budget Committee.

If I could just say that at 10 o'clock, we will, along with the rest of the Senate, observe a moment of silence for the victims at Fort Hood. So we have about 4 minutes before that, if you would proceed, but I just wanted to give you a heads up that at 10 o'clock we will observe the moment of silence.

STATEMENT OF HON. GEORGE V. VOINOVICH, A UNITED STATES SENATOR FROM THE STATE OF OHIO

Senator VOINOVICH. Thank you, Mr. Chairman, and thank you, Senator Gregg, for holding this hearing on the most important issue Congress and our Nation faces. The two of you have spoken eloquently over the years about the need to deal with the debt, the deficit, and tax reform. And I think it is really important that finally the American people are recognizing the fiscal crisis our Nation faces.

As everyone in and out of Congress knows, our Federal spending is out of control, and as a result, our debt continues to skyrocket. We have projected deficits as far as the eye can see. It does not take an economist to realize our course is not sustainable. The Federal Government is the worst credit card abuser in the world, and we are putting everything on the tab of our children and grandchildren. At a time when American families are taking a close look at their own budgets and credit card statements, the Federal Government is turning a blind eye to the statements on our out-of-control Federal debt. And internationally our credit and credibility are on the line.

Since 2006, I have introduced the Save America's Future Economy Commission Act, the SAFE Act, to reform Social Security, Medicare, our Tax Code, and to provide a process for Congress' expedited consideration of legislation proposed by the SAFE Act's committee. I am pleased that Senator Lieberman and others have joined in this effort, and over on the House side we have—and both

of them are here today, who have worked very hard—Congressman Cooper and Congressman Wolf.

Similar to the Base Realignment and Closure Commission, the SAFE Act would break that legislative logjam in Washington by creating a bipartisan, bicameral committee to draw up policy prescriptions for the Government's long-term budget crisis that would go before Congress for an up-or-down vote.

I know that some members question why Congress cannot pass the necessary legislation. Mr. Chairman, you pointed it out in your opening statement, and Senator Lieberman has been eloquent in pointing it out also. The fact of the matter is that Congress is not willing to take short-term pain for long-term gain, period. And that is why we need a commission to provide the solutions and the expedited procedure for an up-or-down vote so that reform proposals do not die in committee or become an exercise in political messaging, which we have too much of around here.

While I believe the SAFE Commission is an example of bipartisan compromise when it comes to a productive process, I hope that this Committee and my colleagues do not make the mistake we too often make around here of letting the perfect get in the way of the good. In the 110th Congress, I was a cosponsor of your legislation with Senator Gregg, the Bipartisan Task Force for Fiscal Action Act, and frankly, I will support any reasonable bill that we can get bipartisan support from our Congress.

I am pleased to say also that it appears like President Obama is finally starting to get it. In an interview with the Washington Post, the President endorsed the idea of creating a commission where, "what you end up having to do in terms of structural reforms realistically is you probably have to set up some sort of commission or mechanism that reports back with the prospect of maybe locking in a pledge for action."

Mr. Chairman, we must find a compromise, and we have to act now. I would hope that maybe this is one of the most important hearings that we have had in my 11 years in the U.S. Senate. Many people believe that this generation of Americans will be the first whose standard of living is less than those before them. Our failure to act now will guarantee that they are right.

Thank you, Mr. Chairman.

[The prepared statement of Senator Voinovich follows:]

Statement of Senator George V. Voinovich
Senate Budget Committee
November 10, 2009
"Bipartisan Process Proposals for Long-Term Fiscal Stability"

Thank you Senators Conrad and Gregg for holding this hearing on the most important issue Congress and our Nation faces. The two of you have spoken eloquently for years about the need to reduce our Nation's debt and deficit and to reform our tax code. And, I think it is important to point out that the American people are also recognizing the fiscal crisis our Nation faces.

As everyone in and out of Congress knows, our federal spending is out of control, and as a result, our debt continues to skyrocket. It doesn't take an economist to realize our course is unsustainable. The federal government is the worst credit card abuser in the world and we're putting everything on the tab of our children and grandchildren. At a time when American families are taking a close look at their own budgets and credit card statements, the federal government is turning a blind eye to the statements on our out of control federal debt. And, internationally our credit and credibility are on the line.

Since 2006, I have introduced the Save America's Future Economy Commission Act (SAFE Act) – to reform Social Security, Medicare, our tax code, and to provide a process for Congress's expedited consideration of legislation proposed by the SAFE Act's committee. I am pleased Senator Lieberman has joined me as an original co-sponsor on the SAFE Act along with Senators Isakson, Specter, Corker, Ben Nelson, Graham, Risch, and Crapo. This legislation is similar to a proposal introduced by my friends, Congressmen Jim Cooper and Frank Wolf in the House.

Similar to the Base Realignment and Closure Commission (or BRAC), the SAFE Act would break the legislative log jam in Washington by creating a bipartisan, bicameral committee to draw up policy prescriptions for the government's long-term budget crisis that would then go before Congress for an up or down vote.

I know that some Members question why Congress cannot pass this necessary legislation through regular order, and in an ideal world that is what we would do. Unfortunately, for my entire time in the Senate, we have not been able to address our fiscal crisis. Congress is simply not willing or not capable of enduring short-

term pain for long term gain. This is precisely why we need a commission to provide solutions and an expedited procedure for an up or down vote so that reform proposals don't die in Committee or become an exercise in political messaging.

While I believe the SAFE Commission is an example of bipartisan compromise when it comes to a productive process, I hope that this Committee and my colleagues do not make the mistake – we too often make around here – of letting the perfect get in the way of the good. In the 110th Congress, I was a cosponsor of Chairman Conrad and Ranking Member Gregg's Bipartisan Task Force for Fiscal Action Act, and frankly, I will support any reasonable bill that gains strong bipartisan support and sends a strong message to President Obama that we must act now.

I'm pleased to say it appears like President Obama is finally starting to get it. In an interview with the Washington Post, President Obama endorsed the idea of creating a commission where, "what you end up having to do in terms of structural reforms realistically is you probably have to set up some sort of commission or mechanism that reports back with the prospect of maybe locking in a pledge for action."

We must find a compromise and we must act now. Many people believe that this generation of Americans will be the first whose standard of living will be less than those before them. Our failure to act now will guarantee that they are right.

Chairman CONRAD. Thank you, Senator Voinovich.

I am told that the Senate's moment of silence will actually be at about 10:03. A staffer will come in once the moment of silence starts so that we can coordinate throughout the Senate family that moment of silence.

Senator Feinstein, we are delighted that you are here. We very much appreciate the leadership you have provided. You were an early advocate of a special process working with Senator Domenici, the former distinguished Chairman of this Committee, and now you are working with Senator Cornyn, who is also a distinguished member of this Committee. We appreciate very much your willingness to testify.

STATEMENT OF HON. DIANNE FEINSTEIN, A UNITED STATES SENATOR FROM THE STATE OF CALIFORNIA

Senator FEINSTEIN. Well, thank you very much, Mr. Chairman and Ranking Member Gregg, Senator Warner, and Senator Sessions, with whom I work on Judiciary. I thank you for those comments.

Senator Cornyn would be here would it not be for the ceremony at Fort Hood, and I know he would want everyone to know that.

As you mentioned, this was introduced by Senator Domenici and me in February of 2007, and Senator Cornyn and I have reintroduced the bill this year.

Perhaps because I am a mayor, I tend to look at things in terms of what is actually spent, and so outlays have become a critical criteria for me. So over the past, I guess, 10 to 12 years, I have been

tracking outlays, and the entitlement outlays run between 50 percent and 56 percent of everything the Federal Government spends in a given year.

The August 2009 figures are 50 percent. Now, they would have been higher except for the financial crisis numbers, which are 11 percent so far of everything we send; interest, 5 percent; discretionary, defense 18 percent; and then everything else, all the things Senator Sessions spoke about—Transportation, Interior, Justice, Education—just 16 percent of what is actually outlaid. So the entitlement picture looms huge and, of course, that is Medicare, it is Medicaid, it is Social Security, it is veterans' benefits. It is those things that you cannot control that just keep going year in, year out.

So what we have put together is an entitlement commission. Now, this commission would be an authority. This commission would handle Social Security and Medicare, and it would do so in the mode of the Greenspan commission. We took that model of 15 members, some members professional outside members, some members from the House, some members from the Senate, set up an appointment process and said they will have independent actuaries who will actuarially survey these two systems on an ongoing basis and will essentially send to the Congress every 5 years legislation with how to keep the system in balance.

Now, this is ongoing. It is not just a temporary commission as the others. And the reason is, I believe, that the changes and tweaks that have to be made really are going to take time to do it. If you do it in one fell swoop, it is huge. So, actuarially, the system is surveyed and every 5 years a plan is sent to the Senate in the form of legislation. And I wanted to get it as close to BRAC-like as possible.

The problem comes if there are taxes of giving an independent commission the ability without the elected body of doing that. So we have it in an expedited——

Chairman CONRAD. If I can interrupt, Senator Feinstein.

Senator FEINSTEIN. Of course.

Chairman CONRAD. I am advised now that the Senate is observing the moment of silence for the victims at Fort Hood, and we would ask everyone to stand for the purposes of this observance.

[A moment of silence.]

Chairman CONRAD. We thank you all for this sign of respect for those who were the victims at Fort Hood. Our thoughts and prayers are with the families and the friends and the colleagues of those who were wounded and killed.

I apologize to you, Senator Feinstein, for interrupting your testimony.

Senator FEINSTEIN. That is quite all right. Thank you very much for doing that.

Chairman CONRAD. Please proceed.

Senator FEINSTEIN. I appreciate it.

So the recommendations of the commission would be sent to the Congress every 5 years, and there would be an expedited procedure of 120 days. Only germane amendments are acceptable, and this is where I would prefer BRAC, a BRAC-like, vote it up, vote it down. To be honest with you, our bill at the present time does not have

that because there was concern about taxes being levied by people who are not elected.

The commission would be made up of 15, including the Chairman and Ranking Member of the Senate Finance Committee and the Chairman and Ranking Member of the House Ways and Means Committee. Seven members of the commission would be chosen by the President to include three Democrats, three Republicans, and one independent. Eight members of the commission would be chosen by the Congress to include four selected by the Senate Majority and Minority Leaders, and they would concur. The process would be that they agree on who it is to prevent, you know, games or people from one particular venue, but basically we want people who are knowledgeable, and four selected by the Speaker and the House Minority Leader.

As I say, independent actuaries and outside experts would be retained to continually review each entitlement program with the goal of bringing it into fiscal balance and preserving its viability for future generations.

That is essentially it, Mr. Chairman. I feel, as does Senator Voinovich, I will vote for this. I will not vote for raising the debt limit without a vehicle to handle this. I agree that this is our moment. The only thing that I would implore is that this be an ongoing process and that we take it up every 5 years with a bill that hopefully a way can be found to accept it or reject it as in BRAC. It is painful, but I believe it has to be done. I also believe if the commission is only Members of Congress, they will be subject to so much importuning by various groups that—and they run for office—it will make it difficult. And that is why we have put this hybrid commission of independent people outside of the Congress with key Members of the Congress.

I thank you for listening.

Chairman CONRAD. Thank you, and thank you for your description. Very helpful to the Committee and we appreciate it.

Senator FEINSTEIN. Thank you.

Chairman CONRAD. Senator Bayh is the author of the letter that went to the Majority Leader.

Senator GREGG. Very well written.

Chairman CONRAD. It was very well written, very thoughtful.

Senator BAYH. You said that with such surprise.

[Laughter.]

Chairman CONRAD. And very important. We are delighted that you are here, Senator Bayh. Please proceed.

STATEMENT OF HON. EVAN BAYH, A UNITED STATES SENATOR FROM THE STATE OF INDIANA

Senator BAYH. Thank you, Mr. Chairman, Ranking Member Gregg, Senator Warner.

Mr. Chairman, there have been such eloquent statements made by everyone so far. I have a statement that I would like to submit for the record if that is acceptable to the Committee.

Chairman CONRAD. Without objection.

Senator BAYH. Just a few brief observations, Mr. Chairman.

First, who would have thought that the Budget Committee would be the site for the beginning of an institutional insurrection, but

here we are. And looking around the witness table and the members of the Committee who are present today, many of us count ourselves as pragmatists not ideologues, as moderates not extremists. And yet here we are asking for a change in the way that business is done in Washington. I think that is pretty eloquent testimony in and of itself about the magnitude of the problem and the urgency that we must bring to doing something about this.

And, George, you warmed my heart listening to you testify. That was a former Governor speaking here this morning. Dianne, you described yourself as a mayor. I know Senator Warner described himself as a Governor. You have your roots in State government.

For those of us who have served in that capacity, we are no strangers—and Senator Gregg, of course, a former Governor. We are no strangers to having to make difficult decisions and to occasionally say no, even if it is not popular because it is in the long-term best interests of our State, our country, and those who put their responsibility in us. That is the kind of discipline we have to bring to the U.S. Congress in this important moment.

The bottom line for me, Mr. Chairman, is that business as usual in Washington is not going to solve this problem. The path of least resistance which we have trod for so long now is the path to national weakness. We can no longer afford to continue on like this and must have a special process to help correct the problem.

This to my mind has its roots in basic human psychology. Some in the Congress like to spend more than we can afford, and some like to cut taxes more than we can afford. The easy path is just to simply borrow until the credit markets will no longer allow that. Interest rates will go up. Economic growth will go down. Our children and grandchildren are left with the bill.

This violates something fundamental in the American character. Every generation in our country, every single one, has been willing to do the difficult work and make the occasional sacrifices so that those who will follow can inherit a better way of life and a stronger country. We are putting that at risk if we are not willing to do the same.

So now is the time. I agree with the comments my colleagues have made, particularly Senator Feinstein's about raising the debt limit. I will not do this unless there is tangible evidence that we are beginning to head in a better direction. It would be deeply irresponsible.

As you know, Mr. Chairman, there are rare moments of leverage in this institution where you can implement fundamental change. This is one of those moments. We must seize it.

I would simply conclude by saying we are all aware that there are good people who will raise objections to this for reasons that are satisfactory to them. And that is why I have been for a slight modification of the Conrad-Gregg proposal. I would say to our colleagues who believe that regular order can produce a better result, give them an opportunity for 60 days. Put them to the test. But if they are simply, in spite of their best intentions, incapable of producing something that is in the national interest, then their parochial concerns must give way to doing what is in the best interest of this country.

So I salute you for your leadership, Senator Gregg, who is someone I have immense respect for, we must press on here and use this hearing as a catalyst for the kind of change that Washington needs and that future generations will thank us for.

Thank you, Mr. Chairman.

[The prepared statement of Senator Bayh follows:]

Testimony of Senator Evan Bayh
Before the Committee on the Budget, United States Senate
November 10th 2009

Mr. Chairman, I appreciate the opportunity to testify before your committee this morning. Thank you for your steadfast commitment to putting our nation back on a fiscally responsible path. Your leadership on these critical issues is more important than ever and the country is fortunate you're sitting in that chair. Senator Gregg—let me also thank you for your leadership and your commitment to a bipartisan partnership with Chairman Conrad. The Senate as a whole could learn a lot from the example you and Chairman Conrad set in this committee.

I would also like to acknowledge the work of a few of our colleagues—some of whom are witnesses here today. In addition to the Chairman and Ranking Member, Senators Lieberman, Voinovich and Feinstein and Congressmen Cooper and Wolf have worked hard on the idea we're here to discuss: the creation of a special, bipartisan process to address our ballooning deficits and debt. I salute their work and look forward to working with them.

Finally I note that the next panel will include testimony from William Galston, David Walker, Douglas Holtz-Eakin and Maya MacGuineas—whose indispensable expertise we will rely on to help set our country on a path of fiscal sanity.

Mr. Chairman—as you know, the National Debt cannot grow beyond a ceiling imposed by Congress known as the "debt limit." In 1919, just after World War I, that ceiling was $43 billion. By 2001, the debt limit had grown to $5.9 trillion. At the end of the previous Administration, it had nearly doubled to $11.3 trillion and today the limit stands at $12.1 trillion, only roughly $100 billion more than our current national debt.

The House of Representatives has already passed legislation to increase the debt limit by another $925 billion. But that increase alone will not be sufficient to cover expected increases in the national debt next year. Let me say something very clearly to the committee that I have said privately to you, Mr. Chairman. It is highly unlikely that I will vote to raise the debt limit unless Congress takes credible action to address the problem of our increasing national debt. I know several colleagues share these sentiments.

When the government approaches its statutorily capped level of borrowing, it has become customary for the Treasury Department to write Congress reminding Senators and Congressmen of the dire consequences of restricting its ability to borrow. There should be no mistake: these consequences are real. What those letters often fail to mention, however, are the equally dire consequences of our skyrocketing deficits and debt.

Deficits and debt matter for everyone. In 2008, the American taxpayer paid more than $250 billion to our creditors in interest payments alone. Each citizen's share of today's debt is more than $39,000. Long-term deficits will drive up interest rates for consumers, raise prices of goods and services and weaken America's financial competitiveness and security.

The bigger our deficits, the fewer resources we have to provide critical investments in energy, education and health care and tax relief for small businesses and middle-class families. Increasingly, we are financing our debt by borrowing from foreign creditors, including the Chinese, which raise serious questions about the ability of foreign countries to influence our economic and trade policies in ways that run counter to our national interest.

Washington has proved itself serially incapable of getting its fiscal house in order. Both parties have, all too often, charged the cost of their trillion dollar agendas to the nation's credit card. It has become clear to me that business as usual in Washington cannot be relied upon to fix this problem. This is something the Chairman, Ranking Member and other witnesses here today recognize. If you have the same people and the same process, you are going to get the same results.

In Washington, the conventional wisdom is that commissions are something politicians create to take the place of hard decisions and real action. However, a new deficit-fighting mechanism, like the one many here have proposed, would have real teeth. Its bipartisan members would have a deadline to issue their report. Congress would then be compelled by law to debate their recommendations and take an up-for-down vote—in effect forcing Washington to face our fiscal challenges head on. No more delay. No more denial. No more excuses. Politicians who choose to continue down the path of political least resistance – more debt– will be forced to explain to the American people why a $12 trillion debt is okay with them.

In fact, the objection I hear raised most frequently to the creation of this special commission is that it would do too much, not too little. Some in Washington have said that any effort to reduce the deficit should go through the regular committee process. Mr. Chairman, Congress has raised the debt limit eight times since 2001. The national debt has doubled in this time. On our current path, it is scheduled to double yet again. The American people see that our existing process has not only failed to respond to this problem, it has often exacerbated it.

I, like most Americans, am more interested in problem-solving than process. I care more about seeing us address our fiscal issues than which committee has jurisdiction over those issues. To the extent that there is jurisdictional resistance to this idea, you might consider giving the committees a set period of time—60, 90, 100 days—to show they can respond to these challenges. If they failed to do so in that time, then this special process would go into effect.

Mr. Chairman, I believe the time for a commission has come. Never has the need for fiscal responsibility been greater and never has the country been more focused on that need. Last month I sent a letter to the Senate Majority Leader calling for the creation of this special process. Nine of our Democratic colleagues joined me and since then I have been approached by Senators from both parties who have expressed support for the concept.

Before we vote to increase the amount of debt we are asking our children and grandchildren to pay, we must take credible action to finally address this problem in a serious, bipartisan way. If we do not, we will have abdicated our responsibly to this nation, to our children and to our grandchildren. I thank the Chairman and Ranking Member once again for their leadership and pledge to work with you and our colleagues to make this a reality.

Chairman CONRAD. Thank you, Senator Bayh, for that eloquent statement, and I hope, I very much hope people are listening. I hope our colleagues are listening. I hope they are listening downtown. This is a critical moment, and you rarely do have the leverage to make a fundamental change, a fundamental break from the current trend. And that is really what is required here.

We have had leaders not only in the Senate but leaders in the House, no two more dedicated than Representative Cooper and Representative Wolf who have for a long period of time advocated

a special process and gone to the hard work to produce an agreement about how one would be structured. Welcome to you both. We will begin with Representative Cooper. Welcome to the Senate Budget Committee. We very much appreciate your leadership and thoughtfulness on this issue, as on many others. Representative Cooper?

STATEMENT OF HON. JIM COOPER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TENNESSEE

Mr. COOPER. Thank you very much, Chairman Conrad, Ranking Member Gregg, my friend and former classmate, Senator Warner.

Speaking on such a panel of unlikely revolutionaries, it is very important that we seize this moment of opportunity, this moment of truth, to do the right thing for the country. I believe that there is no more important issue for the strength of our Nation than facing up to our long-term fiscal imbalance. And, sadly, the long term is not very far away anymore.

In the 2008 fiscal year, the Treasury Department in its "Financial Report of the United States Government" reported that the present value of unfunded obligations for our United States is $56 trillion, or almost four times the GDP of America. Now, this is a larger number than some of my colleagues have used because this is the present value using real accrual accounting.

I think it is very important to use real numbers in Washington because the Federal Government is the only large entity left in America that gets away without using real numbers. Every for-profit and nonprofit entity of any size in this country, every State and local government, has to use real numbers, accrual accounting, except for the Federal Government. And, sadly, I have been looking for a long time. I still cannot find any major business group that will advocate that the Federal Government also use real accounting the way they have to use it.

In 2009, we do not know what the report will indicate, but it is coming out in about a month, on December 15th. It is likely that the unfunded obligations of the U.S. will rise from $56 trillion to $60 trillion, a rate of worsening, a rate of sinking of about $11 billion a day. That is hard to wrap your mind around. But every citizen needs to do that.

In my opinion, the result of all this is we have fiscal cancer, and it is metastasizing at the rate that very soon no surgery, no chemotherapy, no radiation will be able to cure the problem.

Albert Einstein is supposed to have said that the greatest power on Earth is not nuclear power; it is compound interest. And if you are a debtor nation, that works against every citizen of this country.

The President and Congress have acknowledged that the bulk of our budget problem lies in the health care, the area of health care entitlements. That is why both the House and Senate reform proposals make an effort to reduce the deficit now and in the future, and we need to make a stronger effort. But each of these bills contains what would be, if passed, the largest cut in mandatory spending that our Nation has ever seen, larger than the Balanced Budget Act of 1997—$100 billion larger—and that is a good start.

But in addition to reducing our long-term problems by facing health care reform, we need to face many of our other problems in order to truly lower the cost curve or bend it downward in the right direction.

I am not satisfied that the House bill does enough in this regard, but I know that you, Senator Conrad in particular, have taken a long-time interest in this topic, and I am hoping that working with freshmen Senators and working with the Senate as a whole we can substantially improve this bill. There is much to be done.

As you have said, put bluntly, the decisionmaking process in Congress is broken. It must be fixed. The first-choice solution, as Senator Bayh said, is give the folks who think that regular order will prevail a chance, another chance. They have had decades of chances. The basic message is stop us before we spend again.

I resisted, to be honest with you, the commission idea because it is a second-choice proposal. But relying on my good friend and colleague Congressman Wolf, who finally persuaded me that this was absolutely necessary, and he is right, we need this decision-forcing mechanism to do the right thing for the country.

Traditionally, you know, Congress has had to really face up to a crisis before we act, and I am hoping that this month or next, even the blindest partisan will see that we must act.

Mr. Chairman, as you know, the whole world is watching us, particularly nations like the Chinese, who are getting tired of funding our lifestyles. A year or two ago, the leading rating agencies on Wall Street, Standard & Poor's and Moody's, already projected that the U.S. Treasury bond could lose its AAA rating as soon as 2012. They went on to project that the Treasury bond by 2015 could have the same credit rating as that of Estonia or Greece. This is not a future that we want for our country. We must change course and change course fast.

As you know, Mr. Chairman, the Treasury bond is the anchor to the world's global financial markets. If it is allowed to slip, we do not know what will happen, but it will not be good, and it could even make the current financial recession look like a sideshow.

I am glad to announce that the vast majority of Blue Dogs, fiscally responsible Democrats in Congress, support the SAFE Commission proposal. We are looking to persuade other members to join us in this fight because it is absolutely vital for the future of our country.

Family, in closing, Mr. Chairman, to quote the Nike slogan, because this issue is even more important for our young people than it is for anyone else, as the Nike slogan says, "Just do it."

Thank you, Mr. Chairman.

[The prepared statement of Mr. Cooper follows:]

Testimony before the Senate Budget Committee

Hearing on Bipartisan Process Proposals for Long-Term Fiscal Stability

By Rep. Jim Cooper (TN-05)

November 10, 2009

Thank you Chairman Conrad and Ranking Member Gregg for inviting me to testify before the Committee today.

Speaking on such a panel of distinguished bipartisan, bicameral legislators, it's tempting to think reform is inevitable. But we all know that's not true. We have many colleagues to convince.

I believe that the greatest threat to our nation's economic security is our long-term fiscal imbalance. At the end of the 2008 fiscal year, the Treasury Department's "Financial Report of the United States Government" reported the present value of our unfunded liabilities at $56 trillion, or almost four times the GDP of America.

2009's Financial Report will be released in about a month, and it's likely to report unfunded liabilities over $60 trillion, having tripled in just a decade. That means for every day we delay reform, we sink $11 billion deeper.

In my opinion, we have fiscal cancer, and it is metastasizing so quickly that, all too soon, no surgery, chemotherapy, or radiation will be enough to save us. Albert Einstein is supposed to have said that the most powerful force on earth is not nuclear power, but compound interest.

The President and Congress have acknowledged that the bulk of our budget problem is in health care. That's why both the House and Senate reform proposals make an effort to reduce the deficit now and in the future. Each contains what would be the largest nominal cut in mandatory spending in the history of the United States – $600 billion, or over $100 billion more than the Balanced Budget Act of 1997. In addition to reducing our deficits through health reform, however, we must also reduce the growth rate of health spending, i.e. lower or bend the cost curve downward.

Although I am not satisfied that the House bill passed this weekend meets these goals, I know that many of my Senate colleagues like you have worked to make fiscal responsibility a central focus of the debate. I look forward to working with you all to ensure that, when the President signs health reform into law, we will improve our short-term and long-term economic outlook.

As this committee knows, even fiscally-sound health reform will not be enough to bring sustainability to the federal budget. Neither will a return to strong economic growth after the

current recession has passed. Our systemic deficit problem is the product of a decade of poor fiscal policy and decades of mounting unfunded entitlements.

Put bluntly, the decision-making process in Congress has failed. So, how can we fix it? The best course is more direct spending cuts, but we all know how likely those are. The second-best solution is a top-level commission to force congressional action.

The proposal put forward in the last Congress by you, Senators Conrad and Gregg, impressed Congressman Wolf and me so much that we introduced identical legislation on the same day. We also introduced a modest variation of your proposal. H.R. 1557, the Cooper-Wolf SAFE Commission Act, to create a bipartisan 16-member panel charged with putting America back on track to fiscal strength.

The idea is for both chambers of Congress to use a fast-track process to prevent unnecessary parliamentary delays, but with substitute amendments from both parties and the President. The Commission would be made up of Members of Congress, outside experts, the Treasury Secretary and the OMB Director. In order to ensure consensus, they would hold public hearings, and any reported package would require support of a supermajority of the commission's membership.

The proposal put forward by Senators Voinovich and Lieberman is virtually identical to what Frank and I have offered. The proposal put forward by Senator Feinstein is another worthy approach to solve the same problem.

There are arguments for and against the details of the proposals before you today: having unelected members of the commission, or whether amendments are appropriate, for instance. These differences of opinion are largely tactical, but we share the same strategic vision.

Personally, I'm open-minded about the shape of the negotiating table. These details are far less important than having a prompt mandate for action.

Traditionally, for Congress to undertake anything this extraordinary there must be some action-forcing crisis. The crisis must be so obvious that even a blind partisan must admit action is necessary.

As the Chairman has shown in his opening remarks, America's fiscal trajectory has not been sustainable for many years. The financial markets – and the Chinese – have known this for a long time. Even before the recent financial and economic crises, ratings agencies Standard & Poor's and Moody's both issued projections that, without action to restore balance, United States Treasury Securities would lose their AAA credit rating as soon as 2012 and 2017, and be "below investment grade" in 15 to 25 years.

The Treasury bond is the anchor to global capital markets. If it is allowed to slip, global finance could become untethered. The economic pain of the last year will seem like a sideshow in comparison.

I am glad to announce that the vast majority of the Blue Dog Coalition in the House of Representatives has today endorsed H.R. 1557, the Cooper-Wolf SAFE Commission Act.

On behalf of my fellow Blue Dogs in the House, I tell the Senate Budget Committee today that we stand ready to work with the members of this panel, the Chairman and Ranking Member of this Committee, the leadership of both chambers, and the White House to work through any differences on the details. We must move this legislation in order to achieve our common goal of bringing sustainability to our nation's long-term fiscal outlook.

As the Nike slogan says, "Just do it."

Thank you, Mr. Chairman.

Chairman CONRAD. Thank you, Congressman Cooper, and thank you for your very powerful and persuasive testimony here today.

Next we will go to Congressman Wolf, who has been a long-time leader in this effort, and, Senator Bayh, thank you again for being here.

Congressman Wolf, welcome to the Senate Budget Committee.

STATEMENT OF HON. FRANK WOLF, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

Mr. WOLF. Thank you, Mr. Chairman and the other Senators. I appreciate the opportunity for the hearing.

I have never been more concerned about the future of our country. America is going broke. The Federal Government now owes more in debts and commitments than the total combined net worth of all Americans. The national debt is racing toward $12 trillion and growing at rates that have not been matched since World War II.

In addition, we have amassed massive unfunded promises to guarantee future entitlement benefits that, when added with liabilities like the debt, total $57 trillion. Every man, woman, and child in America owes $184,000.

The United States, as Jim said, will soon lose its AAA bond rating. The dollar appears to be losing its important status as the primary international reserve currency, meaning everything traded internationally, such as food and oil, will increase in price.

And our biggest bankers are Japan and China and oil-exporting countries like Saudi Arabia. Is it really a good idea to be so indebted to countries like Saudi Arabia, the home of the 9/11 terrorists, and communist China, which is spying on us—my computer was compromised by the Chinese—where human rights are an afterthought, and Catholic bishops in jail, plundered Tibet, Protestant pastors in jail?

Then the news we just got Friday: The unemployment rate has hit 10.2 percent.

Can't you feel it? Can't you feel that something is just not right?

There is no other way to deal with the problem. Congress is never going to tackle the growing cancer of overspending on its own. The system is broken. In my 29 years in Congress, I have never—and I was elected with Mr. Gregg; we were in the same class. I have never seen more partisanship and divisive Congress than I have today.

I often refer to an old Simon and Garfunkel song when I talk about this issue. It is called "The Boxer," and you may recall the lyrics: "Man hears what he wants to hear and disregards the rest." The Congress is disregarding the reality of where we are. That is what is happening. That is why we need a commission made up of men and women who care more about their country than they care about their party; who are not constantly looking over their shoulder worrying about how they voted on this issue or that issue.

Simply put, a commission is the only way. Without it, we will have the same old tired process, drawing lines in the sand while the tsunami of debt comes crashing toward the shore.

The commission Jim and I envision would hold public hearings across the country to hear from the American public. Listening will be the key. There has to be honest discussion with the American people about the choices. And as every other witness said, everything—and as Senator Warner said—everything, from entitlement spending to tax policy, would be on the table. This is the only way to deal with the issue. If we go in saying you cannot touch this or you cannot do that, it will not work. Nothing should be prejudged or preconceived.

After listening to the American public, the commission would then develop a series of recommendations to improve our Nation's financial health. And under the enacting legislation, Congress would be required to vote up or down. No avoiding the hard choices.

More than 80 members of the House in both political parties are now on this. Public interest groups, business leaders, think tanks, syndicated columnists, and editorial pages across the country have all endorsed it.

Let us face it. We are at a fork in the road, and we can no longer continue to kick the can down. We can continue down the same path if you want to do that, but that means that in 15 years every penny of the Federal budget will go toward entitlement spending and retiring our debt, or we can start making the hard choices now, knowing that it may be a little rocky to start, but would give us the ability to build and travel a road.

Let me close with this one statement that was made by Norm Augustine, the former chairman and CEO of Lockheed Martin, at a press conference earlier this year—and Jim was there—unveiling a report from the well-respected Center for the Study of the Presidency and Congress titled "Saving America' Future." The report paints a stark and troubling picture of the Nation's challenges. One of the recommendations is to create a panel a bipartisan panel to deal with the looming financial tsunami.

Augustine, who was chairman of the group that prepared the report, best captured the situation when he said the following, and then I close. He said, "In the technology-driven economy in which we live, Americans have come to accept leadership as the natural and enduring state of affairs. But leadership is highly perishable. It must be constantly re-earned."

"In the 16th century," he said, "the citizens of Spain no doubt thought they would remain the world leader. In the 17th century it was France. In the 19th century, Great Britain. And in the 20th century it was the United States."

And then he ended by saying, "Unless we do things dramatically"—and I think Senator Warner was there—"different, including strengthening our investments in research and education, the 21st century will belong to China and India."

I do not want my children and grandchildren to live in the China century. I want them to live in the American century.

Thanks again for having the hearing.

[The prepared statement of Mr. Wolf follows:]

STATEMENT OF REP. FRANK WOLF, R-VIRGINIA
Senate Budget Committee
Tuesday, November 10, 2009

I have never been more concerned about the future of our country. America is going broke. The federal government now owes more in debts and commitments than the total combined net worth of all Americans. The national debt is racing toward $12 trillion and growing at rates that haven't been matched since World War II. Some believe it could grow by $1 trillion a year for the next 10 years.

In addition, we have amassed massive unfunded "promises" to guarantee future entitlement benefits that when added with liabilities like the debt, total $57 trillion. That means every man, woman and child in America owes $184,000.

The United States could soon lose its coveted AAA bond rating, making it even more difficult to borrow money. The dollar appears to be losing its important status as the primary international reserve currency, meaning everything traded internationally, such as food and oil, would increase in price.

And our biggest "bankers" are Japan, China and oil-exporting countries such as Saudi Arabia. Is it really such a good idea to be so indebted to countries like Saudi Arabia, the home of the 9/11 terrorists, and communist China, which is spying on us, where human rights are an afterthought, and Catholic bishops, Protestant ministers and Tibetan monks are jailed for practicing their faith?

Then there is the news we just got Friday: unemployment has hit 10.2 percent. It hasn't been that high since 1983. This means fewer people working to pay this debt.

Can't you feel it? Can't you feel that something is just not right?

For three years now, I have been calling for a bi-partisan, blue ribbon commission to take on the issue country's long-term financial health. I first introduced such legislation in June 2006. There just is no other way to deal with this problem. Congress is never going to tackle the growing cancer of spending on its own. The system is broken. In my 29 years in Congress, I have never seen the level of partisanship that we see today.

I often refer to an old Simon and Garfunkel song when I talk about this issue. It's called the "Boxer" and you may recall the lyrics: "Man hears what he wants to hear and disregards the rest." That is what is happening. That is why we need a commission made up of men and women who care more about their country than their party; who aren't constantly looking over their shoulder worrying about how they voted on this issue or that issue.

Simply put, a commission is the only way. Without it, we will have the same old tired process, drawing lines in the sand while the tsunami of debt comes crashing toward the shore.

The commission Jim Cooper and I envision would hold public meetings across the country to hear from the American public. Listening will be key. There has to an honest discussion with the American public about the choices our country faces.

Everything – and I mean everything, from entitlement spending to tax policy – would be on the table. This is the only way to deal with this issue. If we go in saying 'you can't touch this, or you can't do that,' it won't work. Nothing should be pre-judged or preconceived.

After listening to the American public, the commission would then develop a series of recommendations to improve our nation's financial health. And under the enacting legislation, Congress would be required to vote up or down on the panel's proposal, similar to the successful base closing process. There would be no avoiding the hard choices.

Jim (Cooper) and my commission's idea – we call it the SAFE Commission, which is short for Securing America's Future Economy – continues to receive wide support.

More than 80 members of the House from both sides of the aisle are co-sponsoring the measure. Clearly, it is picking up momentum in the Senate. Public interest groups, business leaders, think tanks, syndicated columnists and editorial pages across the country all have endorsed the SAFE Commission as the way forward. A national survey earlier this year revealed that 56 percent of those polled said a bipartisan commission is the best way to tackle the growing budget deficit and national debt.

Let's face it. We are at a fork in the road. We can continue down the same path, which means that in just 15 years every penny of the federal budget will go toward entitlement spending and retiring our debt, or we can start making the hard choices now, knowing that it may be a little rocky to start, but would give us the ability to build – and travel – a new road to the future.

Let me close by recounting the remarks of Norm Augustine, the former chairman and CEO of Lockheed Martin, at a press conference earlier this year unveiling a report from the well respected Center for the Study of the Presidency and Congress titled, "Saving America's Future: A Challenge to the American People." The report paints a stark and troubling picture of the nation's challenges. One of its recommendations, by the way, is to create a bipartisan commission to deal with the looming financial tsunami that could overtake us.

Norm, who was the co-chairman of the group that prepared the report, best captured the situation we now find ourselves in when he said:

"In the technology-driven economy in which we live, Americans have come to accept leadership as the natural and enduring state of affairs. But leadership is highly perishable. It must be constantly re-earned. In the 16th century the citizens of Spain no doubt thought they would remain the world leader. In the 17th century it was France. In the 19th century, Great Britain. And in the 20th century it was the United States. Unless we do things dramatically different, including strengthening our investments in research and education, the 21st century will belong to China and India."

Thank you.

Chairman CONRAD. Thank you, Congressman Wolf, for really outstanding testimony.

I am delighted at the quality of this panel. I think the message that has been sent is as clear as it can be. Now is the time to move in a different direction, and we simply cannot rely on the traditional, standard regular order to try to take on a challenge of this magnitude. It simply will not work.

And so what is require is a special process, and I think we have defined for us in the Budget Committee a series of alternatives. All of them have merit, and our job will be to try to sort out for the Senate side what proposal can advance.

I want to thank you all. I deeply appreciate your testimony before the Committee this morning.

We will call to the witness table the second panel: the Honorable David Walker, the President and CEO of the Peter Peterson Foundation; Douglas Holtz-Eakin, the President of DHE Consulting, the former head of the Congressional Budget Office; William Galston, a senior fellow at the Brookings Institution; and Maya MacGuineas, the President of the Committee for a Responsible Federal Budget.

Thank you all for your willingness to testify here today. We very much appreciate your taking the time to do that.

Senator GREGG. Can I make an addendum to my opening statement?

Chairman CONRAD. Senator Gregg.

Senator GREGG. Mr. Chairman, I apologize for being a little late. The plane from New Hampshire was a little late this morning. But I just wanted to reinforce the necessity that you have pointed out of doing this not by regular order—I do not mind giving regular order an opportunity, and I think we should, but we have had an opportunity for years—and why this structure that we have come up with, which is essentially Members of Congress and the administration, and a non-amendable event is a very important structure for the purposes of accomplishing our goals.

The logic behind that is—with super majorities. The logic is very simple. You have to have the American people feel that this is an absolutely bipartisan and fair process, and for that you need super majorities, and you need a balanced commission. And, second, the commission has to have skin in the game. There has to be a belief by every member of this commission that they are basically involved in the process, and they have to understand the process. And, yes, outside folks make sense in many areas, but as a very practical matter, we have gone down the road on all these issues so many times that expert knowledge is always available to us, but it is not critical to the—what is critical to the process is having the people on the commission who are actually going to have to make the decisions.

And the need for an up-or-down vote is, I think, the most important part of any commission because there is a tendency to hide in the corners of amendments around this place. Give somebody an amendment, even if it is just one amendment, and that gives somebody an excuse for not voting for final passage or voting against final passage. And as a result, an amendable vehicle inevitably has a fundamental flaw that it can be gamed in the political process and be used—and the amendment can be used as a way to make a political statement and thus avoid making the tough vote on the final passage. So that is why I think a non-amendable vehicle is so critical to this exercise.

Chairman CONRAD. Thank you, Senator Gregg.

Senator Warner?

Senator WARNER. Thank you, Mr. Chairman. I just again want to commend you and Senator Gregg for being kind of at some point lone voices on this issue for a long time, and I know with some of the folks on the first panel. And I concur with Senator Gregg that there is an enormous need to have an up-or-down vote.

I am not as convinced on the issue that it needs to be all necessarily members. I can understand arguments on both sides. I guess the one—and I say this respectfully as a new member. You know, the one concern I do have—and I know you and Senator Gregg have spent an enormous amount of time thinking about this, but under the proposal you have laid out, if the right members were selected, I could see a very successful venture. But if partisan pressure led to members being selected that came in on either side of the aisle with either saying, you know, we cannot look at certain numbers of programs or we can never look at revenues or there are certain things off limits, you know, you could almost derail the process from day one.

And I know you all have thought through this a long time, and I think I can say if both of you were on the commission I would have total confidence that you would come with that open mind. But I do hope that that part of the process can be something we can keep talking about, trying to make sure that whoever is selecting the members of the commission, they would select people that would not come with preconceived notions and truly coming with an open mind that everything needs to be on the table.

Chairman CONRAD. Thank you. Again, Senator Warner, thank you for your courageous leadership. This is tough to take on——

Senator WARNER. As a new guy, this is being courageous?

Chairman CONRAD. Yes, it is. And you know it is, because, you know, you are taking on the institutional structures here, and we all understand that. And we understand how strong they are and how resistant to any extraordinary process they are.

Senator GREGG. Senator Bayh called it "institutional insurrection." I thought that was a fairly good term for him to coin.

Chairman CONRAD. We are going to turn now to David Walker, the former head of the General Accounting Office, somebody who has been a leading voice for a long time on the need for a special process and the need to face up to our long-term indebtedness. He has traveled the country as part of the Fiscal Wake-Up Tour and done incredibly important work to help prepare public opinion for what we know must be done. Mr. Walker?

STATEMENT OF DAVID WALKER, PRESIDENT AND CHIEF EXECUTIVE OFFICER, PETER G. PETERSON FOUNDATION, AND FORMER COMPTROLLER GENERAL OF THE UNITED STATES

Mr. WALKER. Thank you, Chairman Conrad, Senator Gregg, Senator Warner. First, I would like to thank you for the opportunity to be here and, second, commend the three of you as well as the members of the panel before this for their leadership on this critically important issue.

I would like for my full statement to be included in the record, and I will move to summarize it now.

Chairman CONRAD. Without objection.

Mr. WALKER. Thank you.

Our Federal deficit for fiscal year 2009 was $1.42 trillion or about 9.9 percent of the economy. That is almost nine times what it was just 2 years ago.

This past weekend, the Federal debt passed the $12 trillion mark, which is almost 85 percent of GDP. Federal debt almost dou-

bled during President George Walker Bush's Presidency, Bush 43; it could double again in the next 10 years if we do not change course.

Our Nation has become increasingly dependent on foreign lenders to finance our Federal deficits. Today over 50 percent of the Nation's public debt is held by foreign lenders, and that percentage is growing. This compares essentially to no public debt at the end of World War II and only 19 percent in 1990.

Our Federal Government faces a Federal financial sinkhole that is growing at a rapid rate. The $56.4 trillion number at the end of last year has already been mentioned, which is $184,000 per person, $483,000 per household—nine to ten times median household income. The new number I expect will be around $63 trillion plus, and we will not know it until the end of this year because we do not know the commitments and contingencies number.

If you think the current deficit and debt levels are bad, you ain't seen nothing yet. Our huge unfunded promises will translate to much larger deficits and debt burdens in the future absent real transformational reforms on both sides of the ledger.

For example, absent such reforms, total Federal spending could exceed 40 percent of the economy by 2040. Interest alone will be the single largest line item in the Federal budget within 12 years, and we get nothing for it.

In reality, we will never make it to 2040. And by the way, by that point in time, if we wanted to stop the bleeding, we would have to over double Federal taxes alone by that point in time.

As I note below, we will face an economic crisis much bigger than the current one if we pass a tipping point and we do not start to put our act together pretty soon.

The Congress is currently involved in a great debate over health care reform, and I would just like to specifically say that that has serious fiscal implications. I included in my testimony a suggestion of four criteria that should be met in order for health care reform to be deemed fiscally responsible. I am sad to say that right now none of the bills currently meet all four criteria. Hopefully that will change.

Irrespective of how the current health care reform debate ends, we must recognize reality that the key factors that contributed to the recent mortgage-related subprime crisis also exist in connection with the Federal Government's finances. There are, however, two big differences from the mortgage-related subprime crisis: First, the numbers and stakes in connection with the Federal Government's finances are much greater; and, second, no one will bail out America. We must make tough choices and solve our own problems.

We must take concrete steps to address our structural fiscal challenge before we face a possible super subprime crisis. This could result in foreign lenders lose confidence in our ability to put our Government's financial house in order. We must recognize that if they lose confidence or if they otherwise decide to significantly reduce their appetite for financing our deficits, we could experience a dramatic decline in the dollar and a dramatic increase in interest rates. And, by the way, that single largest line item in 12 years assumes no significant increase in interest rates, which is an unrealistic assumption. This would have a devastating impact on America

and Americans. It could also result in a global depression, and we must take steps to avoid that.

With all of this as background, let me comment on the primary subject of the hearing. Should Congress move to enact a special process to address this Nation's large and growing fiscal challenge? My answer to this question is a resounding and unequivocal yes. Based on my experience in traveling to 46 States around America, meeting with hundreds of thousands of people in town hall meetings, business community leaders, editorial boards, as well as local media, it is now abundantly clear that a majority of Americans have grown tired of too much talk and not enough action in Washington. There is an increasing disconnect between the public and Washington, and that disconnect not only is resulting in a growing lack of confidence in the regular order, it is resulting in growing anger throughout the United States irrespective of political party.

Importantly, based on a statistically valid survey funded by our foundation, we found out this past spring that the No. 2 issue of concern to Americans exceed only by the economy was escalating deficits and debt. Twenty points ahead of health care, climate change, Iraq and Afghanistan, moving jobs overseas, and other important issues to the Nation. Twenty points plus ahead. And, in fact, they were also very concerned about our increased reliance on foreign lenders. We have a new survey in the field now, and I would be happy to provide the results of that to you. I fully expect their concern will have increased.

By the way, they also supported by roughly a 2:1 margin the need for a special commission. And, furthermore, they supported by roughly a 2:1 margin the need to have non-government experts on it as well, recognizing the pressures that are brought on elected officials.

In my view, the Congress and the President should take action no later than early 2010 to be able to move to create a special commission. I would respectfully suggest that doing something as part of the debt ceiling limit is a good idea or even possibly doing something as part of health care reform if you cannot do it as part of the debt ceiling. But it is very important we do it in early 2010. We must put a credible process in place that would accomplish two key goals, and I think these are really important based upon 5 years of being out on the front lines in America.

First, to educate and engage a representative group of the American people—not the fringes, a representative group of the American people on the serious fiscal challenge that we face, the range of tough choices that need to be made, the pros and cons of various options, the prudence of acting sooner rather than later, and the potential consequences to our country and our families if we do not.

Second, which all the bills contemplate, we must create a process that will set the table and provide needed political cover for one or more tough votes in Congress, where everything is on the table, literally everything. They should make recommendations in areas like needed statutory budget controls, social insurance program reforms, tax reforms, other spending, including defense, constraints, additional health care reform, because it is pretty clear that the tough decisions are not going to be made on health care to reduce

costs. We will need round two, round three, round four of health care reform even if something happens in other appropriate areas.

In my view, the composition of the commission is critically important. Clearly, you need to have Members of Congress and you need to have representatives of the administration, and that representation should be balanced on both Houses and on both sides of the political aisle. I believe that it is strongly desirable to also have credible non-government experts as part of the commission. Why? Because the truth is when you go outside of Washington, people that have a strong D or R on their sleeve are discounted significantly and that people who are in elective office obviously face pressures that people who are not in elective office do not face.

I respectfully suggest that we do not just need bipartisan solutions, we need nonpartisan solutions, because, after all, a plurality of Americans now consider themselves to be political independents. And, therefore, I think that it is important that with regard to any non-government experts, you do not just have people that are experts, but you have some that are viewed to be in form and substance independent. That is critically important for it to be credible.

The parties who are not elected officials would bear a disproportionate share of the burden for stating the facts and speaking the truth to the American people outside the Beltway. It is going to take a lot of time. It is a major time commitment. Members and Cabinet officials just do not have time for that.

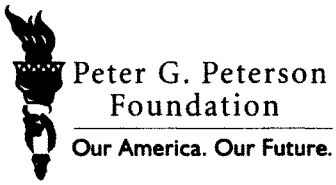
In summary, we are at a critical crossroads in the history of our country. We are approaching a tipping point. We must avoid passing that tipping point because it could have catastrophic consequences for our country and our families.

Some have said that the commission is not the right way to go, that we should go the regular order. That ignores the fact that the regular order is badly broken.

Some have said that we also have a situation where this is something that Members of Congress should handle rather than some special commission. They ignore the fact that in the final analysis Members of Congress must vote, and the President must either sign or veto the bill. Therefore, the constitutional process is respected. But we must recognize this country's future will not be better than its past unless w make tough choices soon. And this is the way to get it done.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Walker follows:]



Senate Budget Committee
November 10, 2009

Hearing on Bipartisan Proposals for Long Term Fiscal Sustainability

Speaker: Hon. David M. Walker, President and CEO of the Peter G. Peterson Foundation
and Former Comptroller General of the United States (1998-2008)

Chairman Conrad, Ranking Member Gregg and other members of the Senate Budget Committee, it is truly a pleasure to appear before you again, this time in my new capacity as President and CEO of the Peter G. Peterson Foundation. Thank you for the opportunity to appear before you today.

First and foremost, I would like to commend Chairman Conrad and Senator Gregg for their public calls for action to ensure the long-term stability and sustainability of our nation's finances. They are right to be concerned regarding the need to address the federal government's deteriorating financial condition. They are also correct in recognizing that a special process will be necessary to achieve the types of actions needed to put our country on a more prudent and sustainable fiscal path.

We are all well aware of the economic and other non-business cycle challenges that our country has faced during the past fifteen months. During this period the housing bubble burst. We also experienced crises in the financial services sector and an adverse ripple effect on the automotive and other sectors of our economy. As a result, we experienced a serious recession and a significant increase in unemployment and under-employment levels. The federal government took a number actions designed to address these challenges and prevent an even deeper recession or depression.

Given the above, federal deficits and debt levels escalated dramatically in fiscal 2009 to record post World War II levels both in dollar and percentage of GDP terms. Specifically, the fiscal 2009 unified deficit was $1.42 trillion or approximately 9.9 percent of GDP. This was almost nine times the size of the federal deficit just two years ago!

While a large increase in the unified deficit and related debt levels in fiscal 2009 is understandable given the recession and our other major challenges, the federal government did not provide clearly defined objectives, criteria and conditions for the TARP bill and the $787 billion "stimulus bill". Therefore, only time will tell if appropriated funds were applied in an economic, efficient, and effective manner.

We need to learn lessons from these experiences and take steps to do a better job in the future. Even more importantly, we also need to recognize the reality that the U.S. Government's financial condition is worse than advertised and that we face a large and growing fiscal imbalance that is driven primarily by rising health care costs, known demographic trends and a growing gap between projected spending and revenues over

time. We faced these conditions before the current recession and recent federal bailouts and assistance programs; however, our situation is worse now and we are closer to reaching a possible "tipping point".

This past weekend total federal debt passed the $12 trillion mark which is almost 85 percent of GDP. Federal debt almost doubled during President George Walker Bush's (43) presidency, and it could double again within the next 10 years unless we change course. Doing so will require elected officials to make tough choices in connection with federal budget policy, social insurance programs, tax policies, health care practices, defense spending and other key areas—choices that may not be popular; but ones that are necessary if we want to avoid a much bigger crisis and ensure that our collective future will be better than our past.

While our escalating deficits and debt levels are a major challenge, they are part of the broader federal financial challenge. Another key challenge is that our nation has become increasingly dependent on foreign lenders to finance our federal deficits. Today, over 50 percent of our nation's public debt is held by foreign lenders and that percentage is growing. Believe it or not, we had virtually no foreign debt at the end of World War II and only 19 percent in 1990. Yes, the truth is that America is being mortgaged and increasingly that mortgage is being held by foreign lenders. That is not in our economic, foreign policy, national security and even domestic tranquility interests over time.

Our federal government also faces a federal financial sink hole that is growing at a rapid rate. At the end of fiscal 2000, the federal government had about $20.4 trillion in total liabilities, commitments and unfunded promises for Social Security and Medicare. That number rose to $56.4 trillion at the end of fiscal 2008—a 176 percent increase in just eight years! While the final numbers won't be in until late 2009, it is likely to be at least $63 trillion due to the record deficit in 2009, growing unfunded promises for Social Security and Medicare, and trillions in additional commitments and contingencies associated with various government bailouts and other assistance efforts. Shockingly, given this number, our total federal financial hole is about $10 trillion more than the current estimated net worth of all Americans and the gap has been growing.

Irrespective of this fact, many in Washington want to grow government even more despite the fact that the federal government has already promised more than it can afford, especially in the area of health care. The truth is that Medicare is already underfunded by over $38 trillion and growing. At the same time, Congress is currently debating making more federal health care promises, without adequately addressing the tens of trillions in unfunded health care promises that we already have.

Let me be clear, we need to ultimately achieve comprehensive health care reform, including some level of universal coverage that is appropriate, affordable and sustainable over time. We should, however, focus first and foremost on gaining control over health care costs or else we risk putting millions more Americans into a health care system that is fundamentally flawed and financially unsustainable over time.

For any health care reform effort to be deemed to be fiscally responsible, it must meet at least four key tests. First, it should pay for itself over 10 years. Second, it should not add to federal deficits past 10 years. Third, it should result in a significant reduction (e.g., 20 percent or more) in the tens of trillions in federal unfunded health care promises that we already have. Finally, it should result in a reduction in the total health care costs as a percentage of the economy as compared to the status quo.

In achieving the above four tests, we must be realistic regarding the assumptions that are used to meet them. Specifically, relying on historically unsuccessful and unsustainable approaches to control provider payments or generate additional revenues may make the numbers work on paper but they are not likely to be sustained over time. Such approaches are also unlikely to pass a "straight face test" in the real world. My extensive travels and participation in town halls and other meetings with many thousands of Americans in 45

states over that past four years have helped me to see firsthand that Americans are tired of creative accounting approaches, unrealistic promises, government bailouts, and partisan bickering.

While we are awaiting the final results of a study that we are funding, it seems pretty clear that the House bill that was passed this weekend does not meet these four tests of fiscal responsibility. It also relies on unrealistic approaches to pay for its proposed expansion of coverage. Health care reform must help improve our nation's financial condition and long-term outlook in order to be prudent and sustainable.

Meeting these four key tests of fiscal responsibility for health care reform is critical but, even if they are met, we will need to do a lot more in order to ensure that this nation has a successful health care system that can be sustained over time. In addition, it is already pretty clear that the current health care reform effort is punting on most of the tough choices that need to be made to really control health care costs. For example, we need to impose a budget for federal health expenditures, we must move away from the current fee for service payment system, we must pursue evidence-based medical approaches, we must address end-of-life issues, we must better target existing tax preferences for employer provided and paid health care, and we must better target taxpayer subsidies under the current voluntary Medicare Part B and D programs.

Irrespective of how the current health care reform debate ends, we must recognize the reality that key factors that contributed to the recent mortgage-related sub-prime crisis also exist in connection with the federal government's own finances. These factors are: first, a disconnect between the parties who benefit from prevailing policies and practices and those who will pay the price and bear the burden for today's fiscal irresponsibility; second, a lack of adequate transparency and public understanding regarding the related risks; third, too much debt, not enough focus on cash flow and an over reliance on current credit ratings; and finally, a failure of existing risk management, regulatory and oversight functions to act until a crisis is at our doorstep.

There are, however, two big differences from the mortgage related sub-prime crisis. First, the numbers and stakes in connection with the federal government's finances are much larger. In addition, no one will "bailout America", we must solve our own problems.

We must take concrete steps to address of this structural fiscal challenge before we face a possible super sub-prime crisis. That could result if foreign lenders lose confidence in our ability to put the federal government's financial house in order. We must recognize that if our foreign lenders lose confidence or if they otherwise decide to significantly reduce their appetite for financing our deficits, we could experience a dramatic decline in the dollar and a dramatic increase in interest rates. This would have a devastating impact on America and Americans. It could also result in a global depression. We must not allow this to happen.

With all of the above as background, let me now move to the primary subject of this hearing—namely, whether the Congress should move to enact a special process to address this nation's large and growing fiscal challenge? My answer to this question is a resounding and unequivocal, YES!

Why do I say this? Because America currently suffers from three societal afflictions—namely: myopia, tunnel vision and self-interest. These factors cause many Americans to focus primarily on today and not enough on what needs to be done to create a better tomorrow. These maladies also affect the work of United States Congress and have grown to epidemic proportions during the past decade or so.

These maladies combined with problems with our current Congressional redistricting process, campaign finance system, special interest lobbying, and a rise in the percentage of members who seek to be "professional politicians", have resulted in our current dysfunctional democracy. One way this is evidenced is

by the Congress' unwillingness and/or inability to address large, known and growing challenges that threaten our collective future absent a crisis. Importantly, we must not allow a crisis to occur in connection with our nation's finances because the consequences to our country, American families and the global economy would be severe. We must find a way to act before a crisis occurs.

Clearly, escalating federal deficits and debt levels, combined with our growing dependency on foreign lenders and the deepening federal financial hole represent challenges that must be addressed. Candidly, the American people get it, but the Congress represents a laggard in connection with these critical issues. That must change and soon.

Based on my extensive travels across the U.S. to discuss the issue of federal fiscal responsibility with the American people, it is now abundantly clear that a majority of Americans have grown tired of too much talk and not enough action from Washington in connection with our nation's deteriorating financial condition. Furthermore, The Peter G. Peterson Foundation, which I have the privilege to head, periodically conducts statistically valid public opinion surveys to assess the views of the American people on a range of critical issues facing our nation. Our last survey, conducted in the spring of this year, showed that the number two issue of concern to the American people was our nation's escalating deficit and debt levels. This subject was only exceeded by the need to get the economy on track.

Interestingly, the public was much more concerned with our escalating deficits and debt levels than health care reform, Iraq and Afghanistan, climate change, proliferation of weapons of mass destruction, and other key issues of public concern. Furthermore, by nearly a two to one margin Americans felt that a special commission was needed to help put our financial house in order. In addition, by an almost two to one margin, they also felt that such a commission should include a number of capable and credible non-government experts.

We currently have another survey in the field and expect to receive the results soon. We fully expect that Americans are likely to be even more concerned about our deteriorating financial condition today than the last time we polled on these issues. I will be happy to provide the results of our last survey and the new survey, once it is completed, for the record should the committee so desire.

These growing public concerns were manifested in various protests during the August Congressional recess. In addition, China and other foreign lenders have publicly expressed their concerns regarding the U.S. Government's current fiscal policy and path. They have also taken certain actions to hedge against the possibility of much higher inflation and a much lower dollar once the global economy turns around.

When will Washington recognize the reality that we must act to defuse our ticking fiscal time bomb? And how can we best proceed to address our growing fiscal challenge before a crisis is at our doorstep?

In my view, the Congress and the President should take action in early 2010 once the current health care reform effort has come to a conclusion, or even possibly as part of that reform effort. Specifically, we need to put a process in place that will accomplish two key goals. First, to educate and engage representative groups of the American people on the serious fiscal challenge that we face, the range of tough choices that need to be made, the pros and cons of various options, the prudence of acting sooner rather than later, and the potential consequences to our country and families if we don't do so. This will require the involvement of several respected, non-government professionals who have the ability and the credibility to make the case and engage the public around the country and on the Internet in an independent, objective, fact-based, non-partisan and non-ideological manner. Second, we must also create a process that will set the table and provide the needed political cover for one or more tough votes in Congress. Therefore, the commission

should be able to make recommendations in connection with needed statutory budget controls, social insurance programs reforms, tax reforms, defense spending, additional health care reforms, and other appropriate areas.

How can we best accomplish these two key goals? In my view, the best way to do so is by creating a new type of commission. This commission would not be the typical Washington commission. It would be designed to accelerate action rather than to punt the ball down the field once again. To do so, it would need to be created by law, be properly designed, and adequately funded and staffed. Its efforts should also result in a range of recommendations that will be guaranteed a vote in the Congress.

Importantly, everything must be on the table for any commission to be credible and to have a real chance of success. This includes acknowledging the need to modernize the current social insurance programs, constrain federal spending and raise additional revenues. In the final analysis, this special process should be designed to facilitate achieving a significant reduction in the over $60 trillion in federal liabilities and unfunded promises, and to create a climate and momentum to do more over time. This process could also enable achievement of the so-called "grand bargain" that President Obama spoke of in January 2009 in an interview with George Stephanopoulos.

For example, such a commission could include twelve members of Congress, including six representatives from each side of the House and from each side of the political aisle, two representatives from the Administration, and six highly qualified non-governmental experts, including two Democrats, two Republicans and two Independents. After all, a significant and growing minority of Americans have become political independents, including myself. These people need to be represented and traditional bipartisan approaches have typically left this important segment of the electorate out in the cold. This should not happen, especially in connection with a commission as significant as this one. Importantly, having some experts who are political independents can also help to enhance the credibility of any "outside the Beltway" and Internet related public education and engagement efforts.

Such a commission should be able to make recommendations either in installments or all at once. For example, the commission could be asked to report in a timelier manner on certain issues where a super majority agreement might be able to be reached more expeditiously (e.g., statutory budget controls that would be imposed after the economy has clearly turned around, Social Security reform). Alternatively, the commission could report its recommendations all at once and as a single package. Importantly, any recommendations supported by a predetermined super-majority of the full commission should be guaranteed hearings and a vote in both houses of the Congress. In addition, while any proposals should be subject to possible amendments, any amendment should be required to be both deficit and debt neutral as compared to the commission's recommendations.

Some have argued that using a commission to address these important issues is the wrong way to go since the Congress should handle these matters through the regular order. This ignores the reality that the regular order is badly broken.

Some argue that the Congress should not turn over so much power to a special commission. However, this argument ignores that fact that, in the final analysis, elected members of Congress and the President must act on any commission recommendations before they can become the law of the land. Therefore, they have the final say as it should be under our constitutional form of government.

I am aware that several legislative proposals have already been introduced in the Congress to create special fiscal commissions. They have varying scopes, compositions, life spans and other features. They all, however,

have one thing in common. Each one properly recognizes that the regular order is not likely to generate the type of transformational reforms on the multiple fronts that we need to within a reasonable time frame. This is the cold hard truth and we must act accordingly.

In closing, our current fiscal path is irresponsible, immoral and downright un-American. We are mortgaging the future of our children and grandchildren while reducing relative investments in their future. At the same time, they are facing increasing competition in a global economy. Yes, our nation is at a critical crossroads. We must take steps to address our large, known and growing fiscal challenge soon. We owe it to our country and to our families to do no less.

Chairman CONRAD. Thank you, former GAO Director Walker, and now head of the Peterson Foundation, for really powerful testimony. I really do hope people are listening, paying close attention, because the stakes are very high here.

We are also joined this morning by Doug Holtz-Eakin, the former head of CBO, somebody that developed real respect from colleagues on this Committee and throughout Congress for the way he conducted himself in that important position. Welcome, Doug. Good to have you back before the Committee.

STATEMENT OF DOUGLAS HOLTZ-EAKIN, PRESIDENT, DHE CONSULTING, LLC, AND FORMER DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Mr. HOLTZ-EAKIN. Thank you, Mr. Chairman, Senator Gregg, Senator Warner. It is a privilege to be back at this table again, and I have had the opportunity in the past to discuss at length the dismal fiscal future, which has been outlined by many of the people preceding me, so I will not belabor that. I do have a statement for the record which I would like to submit.

Chairman CONRAD. Without objection.

Mr. HOLTZ-EAKIN. I would just make a couple of points that I think are the most important about the current budget outlook.

No. 1 I think is simply the time scale and how rapidly it has shifted. What used to be a three-decade problem, which was, you know, well understood but not addressed, is now something that looks to be a one-decade problem, and that makes the challenge, I think, much, much harder.

The second thing that I think is really quite important at the moment is the perception of international capital markets. One of the puzzles that has been around for a long, long time has been why it is that the Congressional Budget Office, the Government Accountability Office, private think tanks, regardless of the source, we have the same basic picture of the Federal Government's future, which is spending lines that point ever northward and revenue lines that do not, and it simply just does not add up. And international capital markets have access to these reports, and the question is: Well, why are they comfortable buying U.S. debt to begin with? And the resolution of that has always been that they are implicitly counting on America solving its problems and that, true to our history, in a very pragmatic way we will ultimately make sure these lines come together and do not ever go apart.

We now have one decade to do two things: No. 1, not disappoint them in that expectation or, No. 2, genuinely address the problem. And I think both of those are important issues at this time.

One of my concerns that I outline in my testimony—I am not going to spend a lot of time on it—is that if we pass bills in the health care debate which are demonstrably unworthy of passage from a fiscal point of view, we will send the message to international capital markets not only that we are not prepared to fix our problem, but we are prepared to make it worse. And I cannot imagine a more dangerous thing to do at this moment in time.

And so one of the things that I think it is useful to think about as we talk about processes to address this is how rapidly things are

going to have to be done and how important it is to send the right message to international lenders.

So if you turn to the topic of the hearing, this notion of a task force or commission to deal with these problems, I just want to say at the outset I am a reluctant convert. I have always felt that this is Congress' job and, quite frankly, it ought to just do it. And that attitude has earned me no friends and has gotten us no action. So I have come around to the point where I am in favor of something that is a special legislative procedure to get this legislation in front of Congress and passed, but in doing it, I think you should stay as close to the sort of traditions of the Congress as possible in designing it. So for that reason, I really believe strongly that it should be dominated by Members of Congress who will ultimately have to vote on this, who represent the committees of traditional jurisdiction where it will have to be ultimately sold at some level, and minimal participation, if any, from outside experts. I, for example, would be of no use in this, and I do not think that is the kind of people you want on a commission. You want people who were elected to come solve these problems, represented, and give them a better leverage in the process to actually accomplish that goal.

I think a tougher call is whether you bring the administration in or not. I think the political problems get bigger as you bring the administration in, and so I would err on the side of keeping the political problems as small as possible and having it be a congressional effort. But I could be talked out of that. It certainly ought to be bipartisan in nature, both its composition and the rules for approval of whatever legislation comes out.

Certainly this task force or commission should produce legislative language, something which goes straight to the floor for an up-or-down vote, and it ought to be supported by a majority of both the minority and majority parties on the commission. I think it is imperative that you get that kind of a buy-in in any commission product before you send it out.

One of the things that I think is the most difficult questions is the scope of the commission's mandate. I have heard a lot today about the desire to have everything on the table, from budget process to budget presentation to policy decisions. And, quite frankly, I instinctively get nervous when I hear that, and I am not sure that is the best way to go, for two reasons.

No. 1, I think that if you go for a single large commission as opposed to a commission dedicated to the tax problem, a commission dedicated to the Medicare, Medicaid, health problem, a commission dedicated to, say, Social Security, the large commission makes it potentially much harder to get the kind of outcome you want, which is an agreement on all of these moving pieces in a single piece of legislation. And since action is important, I think I would prefer less coordinated action by many committees to well-coordinated stasis which continues our problem. So I am sure others disagree with that, but it is a tough call, in my view.

The second reason I am worried about the big commission is if this Congress were to put out a large commission populated by its members with the mandate to solve this problem and it were to fail, I think that would be a very damaging moment in the eyes of our international creditors. And to raise the political stakes that

high in this environment I think has some real risks associated with it.

So in going forward, I think it is imperative, No. 1, that something like this happen. I concur with that. I think that it should be dominated by Members of Congress, but that its mandate should be thought about very carefully so as to maximize the odds that something actually get done and minimize the fallout of a large failure to address a clear and transparent problem.

Thank you.

[The prepared statement of Mr. Holtz-Eakin follows:]

Testimony of Douglas Holtz-Eakin
United States Senate Committee on the Budget
November 10, 2009

Chairman Conrad, Ranking Member Gregg, and distinguished Members of the Committee thank you for the privilege of appearing before the Committee today. The federal government faces daunting fiscal challenges, as the budgetary outlook is a threat to the very foundations of the U.S. economy and the tradition of leaving to the next generation a promise of prosperity that is greater then that which was inherited. In these circumstances, one can only hope that the business of this hearing – a discussion of "Bipartisan Process Proposals for Long-Term Fiscal Stability" – would translate quickly into actual legislation, Congressional passage, and a reversal of the trajectory upon which federal government finds itself.

The Problem

The core, long-term issue has been outlined in successive versions of the Congressional Budget Office's *Long-Term Budget Outlook*. In broad terms, over the next 30 years, the inexorable dynamics of current law will raise federal outlays from about 20 percent of Gross Domestic Product (GDP) to anywhere from 30 to 40 percent of GDP. Any attempt to keep taxes at their post-war norm of 18 percent of GDP will generate an unmanageable federal debt spiral. In contrast, a strategy of ratcheting up taxes to match the federal spending appetite would be self-defeating and result in a crushing blow to economic growth.

The policy problem is that spending rises above any reasonable metric of taxation for the indefinite future. Period. There is a mini-industry devoted to producing alternative numerical estimates of this mismatch, but diagnosis of the basic problem is not complicated. The diagnosis leads as well to the prescription for action. Over the long-term, the budget problem is primarily a spending problem and correcting it requires reductions in the growth of large mandatory spending programs and the appetite for federal outlays, in general.

Just as some would mistakenly believe that we can easily "tax our way out" of this budgetary box there is an equally misguided notion in other quarters that we can "grow our way out." The pace of spending growth simply must be reduced.

This depiction of the federal budgetary future has been unchanged for a decade or more. The diagnosis and prescription have remained unchanged. The only thing missing has been action; well, at least action in the right direction.

Those were the good old days. Now the problem is dramatically worse and happens more quickly. The federal government ran a 2009 deficit of $1.4 trillion – the highest since World War II – as spending reached nearly 25 percent of GDP and receipts fell below 15 percent of GDP. In each case, the results are unlike those experienced in over 50 years.

Going forward, there is no relief in sight. Each year the federal budget is projected to be in enormous deficit. By 2019, according to the CBO's analysis of the President's budget, the deficit will be 5.7 percent of GDP, even though the economy will have long-since been projected to reach full employment and revenues will rise above the norm to reach 19 percent of GDP. The deficit will be roughly $1 trillion, of which about $800 billion will be devoted to servicing debt on previous borrowing.

In 2019, debt in the hands of the public will have doubled from its 2008 level to 82 percent of GDP and will be on an upward trajectory. Measured in nominal dollars, by 2008 our Republic had amassed a debt of $5.8 trillion. The debt is expected to double in three years and then relentlessly expand. In 10 years, it will be $17.1 trillion – over $50,000 per American.

In short, what used to be a problem that would take 30 years to mature is now upon us in the next decade. The diagnosis is the same – too much spending and too much debt – and the prescription is the same. But there is less time to waste.

The Risks

Deficits have economic consequences that impact both fairness and growth. At the most basic level, they force our children and grandchildren to pay the bill for our over-consumption. Often it is argued that it is "fair" to do so because the debt-financed spending confers a corresponding benefit to those generations, but the debts contemplated in the near future cannot pass any reasonable test of equity.

Federal deficits can crowd out domestic investment in physical capital, human capital, and technologies that increase potential GDP and the standard of living. Financing deficits may require net capital inflows that crowd out exports and harm our international competitiveness. We should worry about large borrowing from competitors like China limiting the United States' range of economic and diplomatic options.

In addition to these continued, corrosive effects of budget deficits, analysts have long worried about more dramatic fallout from the budgetary outlook. At what point do rating agencies downgrade the United States? When do lenders price additional risk and charge higher interest rates to federal borrowing, leading to a damaging spike in interest rates? How quickly will international investors flee the dollar for a new reserve currency? If so, how will the resulting higher interest rates, diminished dollar, higher inflation, and economic distress manifest itself? How quickly could such a tsunami of debt-related economic weakness arise? And when could it happen?

Since the basic outlook has been around for a quite some time, one explanation of why such events have yet to transpire is that the same financial market analysts who understand the weak state of the U.S. books also believe that they will be rectified before serious distress arrives. That is, they are counting on the U.S. to put its house in order.

If so, the marked deterioration in the next 10 years raises the urgency of action. Put bluntly, the U.S. is relying on the faith of others in its ability to undertake serious budgetary reforms, and time is getting short.

Viewed from this perspective, the policy uncertainties underlying the budget outlook increase in importance. The President's budget outlook for example, relies on over $600 billion in cap-and-trade auction revenues for which Congress has displayed little appetite. Similarly, it embeds $200 billion in new corporation tax receipts that media reports suggest are no longer a policy initiative. Finally, it pretends that spending and tax credits (Make Work Pay, etc.) that are already on the books from the stimulus package will sunset in two years. In each case, there are policy risks are toward bigger deficits that send the message to financial markets that deficits are not going to be dealt with; they are going to get bigger.

Perhaps the most vivid example of running the risk of sending the wrong message to international capital markets is the health reform legislation before Congress. As I wrote this testimony, the House passed its version of health care reform. This is a bad bill. While one might be tempted to write it off to a triumph of good intentions over good legislation, the House bill has too many transparent flaws to be defensible.

> (1) It does not bend the cost curve downward. As noted by the Congressional Budget Office, it does not reduce the pace of health care spending growth. Even worse, Administration actuary Richard Foster concludes that it bends the cost curve the opposite way; increasing the pace of national health care spending. In this way, the bill betrays the basic promise of health care reform: providing quality care at lower cost. No legislation should pass the Congress that does not meet this test.
>
> (2) It is budgetarily dangerous. The bill sets up a new entitlement spending program that grows at 8 percent annually as far as the eye can see – faster than the economy will grow, faster than tax revenues will grow, and just as fast as the already-broken Medicare and Medicaid programs. It also creates a second new entitlement program – the CLASS Act.

> (3) It is budgetarily dishonest and uses every budget gimmick and trick in the book: leave out inconvenient spending, back-load spending to disguise the true scale, front-load taxes, let inflation push up tax revenues, promise spending cuts that have never materialized, ... the list goes on.

If there really are savings to be found in the Medicare area, those savings should be dedicated to deficit reduction and making the trust fund solvent, not to financing huge new entitlement programs. Getting long-term budgets under control is hard enough now – the job will be near impossible with a slew of new entitlements in place.

For these reasons, the House-passed legislation is economically dangerous, and invites the acceleration of the risk of a debt crisis. It is a dramatic statement to financial markets that the Federal government does not understand that it must get its fiscal house in order. It is a statement that it is content to make things worse. For the Senate to echo this action would be a risky move at a dangerous time.

The obvious problem is that movement in the other direction is hard – lower spending and higher taxes – and requires sacrifice. Will it be worth it? There is no way to know for certain. However, if Congress *does* take action and it turns out that there was never a risk of being punished by international capital markets or otherwise suffering economic disruption, then all that will happen is that national saving will be higher, productivity and wages will grow, international competitiveness will be enhanced, and the federal budget will have maneuvering room in the event of a future crisis. If, on the other hand, it *does not* and these threats are real the Nation will be demonstrably weakened.

In thinking about these risks, it is useful to note that we are in an era unlike the past. While there have been nations whose debt approached or exceeded U.S. levels, it has never been in a situation in which nearly every part of the developed world faces a debt problem comparable (or worse) to that of the United States.

We simply have no experience with massive debt management on this global scale, raising the risks associated with inaction.

Options for Congressional Action

The most obvious option for addressing these actions has been for Congress in regular order to take up and pass legislation to reform Social Security, Medicare and Medicaid so as to slow their damaging outlay growth. Similarly, Congress could pass a comprehensive reform of our income and payroll tax systems that would generate revenue sufficient to fund its spending desires in a pro-growth and fair fashion.

I have long been an advocate for precisely this course, but have reluctantly concluded that I was wrong. There simply is not enough evidence that Congress has the incentives to undertake this crucial task, and the odds of success get lower as the stakes have gotten higher.

An alternative would be for an Administration to present plans of this sort to Congress. Putting aside the problem of getting a Congress to then act, I am equally reluctantly convinced that the most likely incentives lead in the other direction.

As a matter of elimination, then, I am led to structures that supplement the regular Administration and Congressional budget cycles with proposals from commission-like structures or task forces and expedited and restricted rules for consideration of their recommendations.

Aspects of Structuring a Task Force or Commission

There are many aspects of structuring such an approach. I will touch only upon a few that I consider to be the most important.

The first is membership, in particular experts versus Members of Congress. The Commission should be composed of Members. I believe this important in a

representative democracy. Using alternative procedures should not replace the fundamental obligation of our elected officials to carry out the duty of their offices. Nor should it permit the unelected to carry undue weight in the formulation of the laws of the United States.

Some will argue for the importance of having experts on the commission. Congress has no lack of access to experts, and neither would a commission. It could have expert staff, hearings, and research reports. But experts simply do not carry the weight of responsibility, experience, or electoral approval of Members.

Similarly, some will argue that the Administration should be represented in the membership of a commission. This is a tougher call, but on balance I think that it should be restricted to Congress. A commission is in effect an alternative set of procedures for the development, consideration, and passage of legislation. That is the role of Congress. An Administration will doubtless advise and advocate as part of shaping the outcome, but it need not be a member of the commission to do so. Of course, the President can always veto any commission-produced legislation.

The second key aspect is that the commission and its rules of deliberation must be bipartisan. In order to be successful, the public has to perceive the commission as bipartisan and fair. This principle should apply to both comprehensive membership decisions and the rules governing approval of recommendations. There will likely be dissenters from whatever proposals a commission ultimately reports. But there should be a sufficient number – a majority of both the majority and minority – of supporters from both sides so that the recommendations themselves are perceived as bipartisan.

The third consideration is the scope of any such commission. Here I perceive a fundamental tradeoff. The broader the scope of such a commission (Social Security, Medicare and Medicaid, and tax reform) the greater the ability to really solve the policy problem and incorporate the broad set of tradeoffs among

interest groups, programs, and timing. However, the greater the scope, the more it substitutes for Congress instead of providing a supplementary set of legislative procedures. For this reason, it is more likely that the Congress as a whole will seek to modify the proposals (if permitted, see below) or turn them down.

In contrast, having one or more targeted commissions provides more manageable recommendations but makes it more difficult to coordinate their activities to produce a coherent solution. My instinct suggests that more targeted efforts are preferable as less-coordinated action is preferable to stasis, but the argument is far from clear-cut.

The final aspect concerns the rules for consideration of commission recommendations. I believe that the recommendations themselves should take the form of legislative language so as to avoid any confusion regarding what the commission is recommending. I also believe that these recommendations should be given expedited consideration for an up-or-down vote in the House and Senate by simple majority. The goal should be to improve the odds of action and diminish the opportunity for procedural legerdemain by any interest to trump a bipartisan proposal of the commission.

Thank you for the opportunity to appear today and I look forward to answering your questions.

Chairman CONRAD. Thank you, Mr. Holtz-Eakin. Thank you for very thoughtful testimony, as always.

We are also joined this morning by Dr. Galston, senior fellow of the Brookings Institution, someone who has spent a great deal of time studying and analyzing the budget process and budget outcomes in this country. Welcome, Dr. Galston. Please proceed.

STATEMENT OF WILLIAM A. GALSTON, THE EZRA K. ZILKHA CHAIR IN GOVERNANCE STUDIES AND SENIOR FELLOW, BROOKINGS INSTITUTION

Mr. GALSTON. Well, thank you, Chairman Conrad, Ranking Member Gregg, members of the Committee. I very much appreciate the invitation to participate in this timely and important hearing. Let me emphasize at the outset, although, as you say, I am a senior fellow at the Brookings Institution as well as a member of the bipartisan Fiscal Seminar convened under the joint auspices of Brookings and the Heritage Foundation, I am here in my personal capacity, and unless otherwise noted, the views I express are mine alone.

I am not going to spend a lot of time discussing the circumstances that form the backdrop to these proceedings. Regard-

less of party, ideology, or branch of Government, almost no one in possession of the facts believes that our current fiscal course is sustainable. The level of deficits, debt, and borrowing from abroad projected for the next decade alone threatens not only our economic prosperity but also our currency, our global leadership, and our national independence. As soon as our economy emerges from recession and the job market improves, we must adopt a new fiscal strategy, and the planning needed to craft and implement it should begin without delay.

If these facts are clear, as I believe they are, then why have so many past efforts failed to yield major changes, and why is there so little evidence that we are preparing to make them now? While it is easy for partisans to point fingers at one another, it is more useful to examine the deeper problems that have thwarted action, and in my judgment, two are key. And we have already heard about them today. First, these issues are difficult, engaging them is risky, and in today's intensely polarized national politics, no one wants to take the first step, especially alone. Second, ordinary budget procedures are not well designed to address problems that develop over not years but decades. While we need sharp distance vision, what we mostly have is institutional myopia. For these reasons, among others, business as usual is unlikely to produce better fiscal results in the next decade than it has in past decades.

Fortunately, to come to the topic of today's hearing, there is an alternative—namely, institutions specifically designed to address the problems of polarization and nearsightedness. In a paper released last June, the bipartisan Fiscal Seminar to which I referred earlier reviewed the century-long contribution that commissions have made to U.S. policymaking. From the establishment of the Federal Reserve Board and Social Security, from military base restructuring to the struggle against terrorism, the list of accomplishments is impressive. And the challenge of developing a sustainable fiscal policy offers the latest opportunity to put this institution to work.

While it is not my purpose this morning to evaluate the relative merits of various commission proposals, I can, I think, list the criteria that experience suggests are essential to any commission's effectiveness.

First, the President and the congressional leaders of both political parties must fully support its establishment. If they cannot agree at the outset that the fiscal problem is too grave and urgent to defer, they are unlikely to support any solution the commission may propose.

Second, its membership must be truly bipartisan, and its rules must ensure that it can take no action without substantial support across party lines. Whether it has to be majority support or substantial support we can argue about. Recommendations reflecting the views of only one party will simply replicate the polarization that has thwarted action up to now.

Third—and here I echo all the testimony you have heard this morning—it must be empowered to discuss the fullest possible range of issues and options, with the fewest possible preconditions. Artificial limitations on the agenda will almost certainly tilt the deliberations toward a particular party or outcome and reduce the in-

centives of others to participate seriously. No deficit reduction commission can succeed if its purview does not include both spending and revenue. Nor should we focus on social insurance programs to the exclusion of our Tax Code.

Finally—and here again I echo previous testimony—its recommendations must go before Congress under procedures that require expedited consideration and ensure an up-or-down vote. Rules permitting endless delay or amendments that could destabilize a balanced compromise are a formula for futility.

Beyond these core elements, there is room for legitimate disagreement about the scope of a fiscal commission. Some experts believe that a single commission should address all the major issues simultaneously and seek to negotiate a "grand bargain." We have heard some arguments to that effect this morning. Others think that breaking the problem up into more focused and discrete issues would prove more workable, and we have just heard that argument.

There, of course, is no guarantee that a commission will succeed where ordinary procedures have failed. Because fiscal policy raises issues that go to the heart of partisan and ideological definition in our politics today, a commission could yield yet more gridlock. And there is a possibility that both Congress and the White House could use a commission to evade their own responsibilities and defer a debate that very much needs to occur. And so I echo my colleague Doug Holtz-Eakin. I am for that reason a convert but a reluctant convert to the idea of a commission. Nonetheless, at this juncture, in my judgment, the potential gains outweigh the possible costs. At the very least—and this is my conclusion—a commission would force both parties to focus on our fiscal challenges and send average Americans—whose concerns about deficits and debt have risen substantially during the past year—a credible signal that at long last their leaders are paying attention.

[The prepared statement of Mr. Galston follows:]

Statement of William A. Galston
Ezra Zilkha Chair in Governance Studies, The Brookings Institution
Senate Budget Committee, November 10, 2009

Chairman Conrad, Senator Gregg, and members of the Committee, thank you for inviting me to participate in this important hearing. Although I am a senior fellow at the Brookings Institution as well as a member of the bipartisan Fiscal Seminar convened under the auspices of Brookings and the Heritage Foundation, I am here in my personal capacity, and unless otherwise noted, the views I express are mine alone.

I will not spend much time discussing the circumstances that form the backdrop to these proceedings. Regardless of party, ideology, or branch of government, almost no one in possession of the facts believes that our current fiscal course is sustainable. The level of deficits, debt, and borrowing from abroad projected for the next decade threaten not only our economic prosperity but also our currency, our global leadership, and our national independence. As soon as our economy emerges from recession and the job market improves, we must adopt a new fiscal strategy, and the planning needed to craft and implement it should begin without delay.

If these facts are clear, as I believe they are, then why have so many past efforts failed to yield major changes, and why is there so little evidence that we are preparing to make them now? While it is all too easy for partisans to point fingers at one another, it is more useful to examine the deeper problems that have thwarted action. Two are key. First, these issues are difficult, engaging them is risky, and in today's intensely polarized national politics, no one wants to take the first step. Second, ordinary budget procedures are not well designed to address problems that develop over not years but decades. While we need sharp distance vision, what we mostly have is institutional myopia. For these reasons, business as usual is unlikely to produce better fiscal results in the next decade than it has in the past.

Fortunately, there is an alternative—namely, institutions specifically designed to address the problems of polarization and near-sightedness. In a paper released last June ("The Potential Role of Entitlement or Budget Commissions in Addressing Long-Term Budget Problems, brookings.edu/papers/2009/06_commissions_sawhill.aspx), the bipartisan Fiscal Seminar reviewed the century-long contribution that commissions have made to U.S. policymaking. From the establishment of the Federal Reserve Board and Social Security, from military base restructuring to the struggle against terrorism, the list of accomplishments is impressive. The challenge of developing a sustainable fiscal policy offers the latest opportunity to put this institution to work.

While it is not my purpose this morning to evaluate the relative merits of various commission proposals, I can list the criteria that experience suggests are essential to any commission's effectiveness.

First, the President and the congressional leaders of both parties must fully support its establishment. If they cannot agree at the beginning that the fiscal problem is too grave and urgent to defer, they are unlikely to support any solution the commission may propose.

Second, its membership must be truly bipartisan, and its rules must ensure that it can take no action without substantial support across party lines. Recommendations reflecting the views of only one party will simply replicate the polarization that has thwarted action up to now.

Third, it must be empowered to discuss the fullest possible range of relevant issues and options, with the fewest possible preconditions. Artificial limitations on the agenda will almost certainly tilt the deliberations toward a particular party or outcome and reduce the incentives of others to participate. No deficit reduction commission can succeed if its purview does not include both spending and revenue. Nor should we focus on entitlements to the exclusion of our tax code.

Finally, its recommendations must go before Congress under procedures that require expedited consideration and ensure an up-or-down vote. Rules permitting endless delay or amendments that could destabilize a balanced compromise are a formula for futility.

Beyond these core elements, there is room for legitimate disagreement about the scope of a fiscal commission. Some experts believe that a single commission should address all the major issues and seek to negotiate a "grand bargain." Others think that breaking the problem up into more focused discrete issues would prove more workable. For example, Social Security and pensions could be in one basket and federal health care programs in another.

There is of course no guarantee that a commission will succeed where ordinary procedures have failed. Because fiscal policy raises issues that go to the heart of partisan and ideological definition in our politics today, a commission could yield yet more gridlock. And there is a possibility that both Congress and the White House could use a commission to evade their own responsibilities and defer a debate that needs to occur. Nonetheless, the potential gains outweigh the possible costs. At the very least, a commission would force both parties to focus on our fiscal challenges and send average Americans--whose concerns about deficits and debt have risen substantially during the past year--a credible signal that their leaders are paying attention.

Chairman CONRAD. Thank you, Dr. Galston, for that really excellent testimony. I appreciate very much your putting your powers of thought to this task.

We are also joined by Maya MacGuineas, who is the President of the Committee for a Responsible Federal Budget. We appreciate very much your being here, and please proceed.

STATEMENT OF MAYA MacGUINEAS, PRESIDENT, COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

Ms. MACGUINEAS. Thank you, Chairman Conrad, thank you, Senator Gregg, thank you, Senator Whitehouse. It really is a privilege to be here today. I am the President of the bipartisan Committee for a Responsible Federal Budget, and I also currently directing the Peterson-Pew Commission on budget process reform, on budget reform, and we will soon be making a number of rec-

ommendations on budget process and dealing with the fiscal situation that we hope to work with members of this Committee on. I have a longer statement that I would like to submit for the record.

Under reasonable assumptions, the debt will be growing as a share of the economy indefinitely, at some point creating a vicious debt spiral. Part of the trickiness of the situation, though, is that we do not know when. We do not even know exactly what that would look like—whether it would take the form of a precipitous plunge in economic activity, or a slow but damaging erosion of our standard of living.

These long-term problems that we have all known about for quite some time are now at our doorstep. And whereas before the economic crisis, we could put off hard choices a little bit longer, we no longer have the luxury of time. At the same time, however, the economy is still in a delicate state, and if we were immediately to start aggressive deficit reduction, which I am not too worried we are about to, but were we, we could easily push the economy back into recession. So policymakers must chart a course where they reassure our creditors that the U.S. is not a risky place to continue lend, without destabilizing the recovery. The most prudent course of action, we believe, would be to immediately announce a credible plan for addressing the Nation's budgetary challenges, while phasing in those policy changes more gradually while the economy is still recovering. So that brings me to how a commission could work. The potential benefits of a commission are many.

One, a commission could send a credible reassuring signal to creditors and financial markets that the U.S. is indeed serious about tackling our fiscal challenges.

Two, it could establish a shared fiscal goal, which I think is critical.

Three, it creates a bipartisan forum where these issues can be discussed.

Four, it establishes a process to ensure that the recommendations are considered.

And, five, it lends political cover.

Establishing the commission is one potential way to meet the twin goals of sending reassuring signals to markets that we are serious without implementing contractionary policies too quickly and harming the recovery.

The second advantage about the commission could well be that we would create a shared fiscal goal. So the Peterson-Pew Commission—I do not want to give away what we are going to be focusing on, but we strongly believe that some kind of goal looking at stabilizing the debt at a reasonable share of the economy over a reasonable amount of time would be something that our debt trajectory right now argues for. In the absence of a single fiscal goal, it is too easy for lawmakers to oppose any set of hard choices without suggesting other alternatives. Related to the shared fiscal goal, any commission should not start with preconditions of taking things off the table.

Third, while it seems simple, it is quite beneficial just to create an organized forum where the discussion of how best to achieve these fiscal goals can be hashed out between members of different parties. As a political independent and a member of a bipartisan

organization, I strongly believe that the benefits of creating safe environments for bipartisan discourse are very important and that they should be done away from cameras and pollsters.

Fourth, there should be an expedited process. Everybody I think has talked about that. Otherwise, there are just too many opportunities for delay and diversion by those who do not want to face up to the tough choices that will be part of a realistic plan.

Finally, a commission lends the political cover that will be necessary in actually passing a plan. Any plan that realistically tackles whichever challenge we choose to bite off with a commission will involve difficult choices: spending cuts, tax increases, probably both, and probably they will have to be large. No area of the budget will be exempt from consideration and probably reform.

There is no way a politician or a political party that is understandably concerned about their own future can go out on a limb and do this on their own. The benefit of a commission, or any similar collaborative process, is that each member can support the total package while acknowledging that it may not have been their first choice.

So let me conclude by saying I wish we did not need to consider a commission. I share that view of some of my other colleagues. When it comes to fixing the budget situation, we all wish that we could just do it. My preference would be to get started on these policy decisions immediately, with a bipartisan announcement that we would soon be phasing in a bipartisan policy plan. It is easy for me to say sitting here, however. I think due to the incredible political polarization and the types of policies that will be involved, we have seen that there is considerable resistance to doing it without a different mechanism. Thus, a fiscal commission may well be the best mechanism to jump-start the process and make the decisionmaking a little bit easier.

There are many details to work out from the breadth of the mandate to the make-up of the commission to the specifics of the expedited process. I am happy to talk about any of these. From our perspective, it really comes down to whatever works. A commission will only work if it is backed by sufficient political will. Therefore, I think in crafting the specifics of a commission, it is most important that we include details supported broadly within Congress. Members need to buy into the process from the very beginning for it to be successful.

Ultimately, a commission is the beginning of the process. It is not the end. The time is now to get started on this process for dealing with these challenges, and I look forward to any questions. Thank you.

[The prepared statement of Ms. MacGuineas follows:]

Hearing before the Senate Budget Committee on
Bipartisan Process Proposals for Long-Term Fiscal Stability
Tuesday, November 10, 2009

Statement of Maya MacGuineas
Committee for a Responsible Federal Budget

Mr. Chairman and Members of the Committee, good morning and thank you for inviting me here today to share my views on bipartisan process proposals for long-term fiscal stability. It is a privilege to appear before this Committee.

I am the President of the bipartisan Committee for a Responsible Federal Budget. Our Co-Chairs are Congressmen Bill Frenzel, Tim Penny and Charlie Stenholm, and the Board is composed of past Directors of the Office of Management and Budget, the Congressional Budget Office, and the Government Accountability Office, as well as Chairs of the Federal Reserve Board and the Budget Committees, and other budget experts. Our focus is the federal budget and related process issues. I am also the Director of the Fiscal Policy Program at the New America Foundation, a non-partisan think tank here in Washington D.C. And I am currently directing the Peterson-Pew Commission on Budget Reform, which will soon be making a number of recommendations to fix our budget process and improve our fiscal situation. I very much look forward to working with the Members of the Committee on making some of these reform proposals a reality.

That the country faces tremendous long-term budget challenges is not news to anyone on this Committee. Chairman Conrad and Ranking Member Gregg, as well as many of the Members of this Committee, have been some of the most outspoken in the Senate about the need to take action to deal with our daunting fiscal imbalances. I would extend that same compliment to many of the other Members who have come here to testify today.

It is not the massive trillion-dollar-plus deficit of the past year that is so troubling, but that there is no plan to put the budget on a sustainable path in future years. Under reasonable assumptions, the debt will be growing as a share of the economy indefinitely; at some point this will push up interest rates and interest costs as a share of the budget, requiring more borrowing and creating a vicious debt spiral. If not addressed, this will

ultimately lead to a fiscal crisis. Part of the trickiness of the situation though, is that no one knows when. We don't even know exactly what a fiscal crisis would look like – it could take the form of a precipitous plunge in economic activity; or just a slow but damaging erosion of our standard of living. Whether this occurs gradually or all at once, it is unacceptable.

We've known about our long-term problems for some time; they are now at our doorstep. Whereas before the economic crisis we could put off hard choices until the future, time is a luxury we no longer have.

The short- and long-term effects of the economic crisis have advanced the day of reckoning. And while we were right to make our top priority to deal with the very serious economic and financial crises facing the country, these very necessary short-term actions have further worsened our debt picture.

One of the reasons to pursue fiscally responsible budget policies in general is so the federal government has the flexibility to deal with unanticipated crises. If we had been running budget surpluses during the period of economic growth prior to the downturn, we would have had more fiscal flexibility to deal with the economic problems we have faced. However, we are now sandwiched in between a period where we ran structural budget deficits when we should have run surpluses, and the long-term problems fueled by growing healthcare costs and the aging of the population, all of which is greatly exacerbated by the trillions of dollars that were borrowed and spent during the economic downturn. And quite frankly, we are about to make things worse by extending a number of expiring policies without paying for them, adding trillions more to the debt. With warnings from creditor nations, rating agencies, and international organizations such as the IMF coming at an alarming pace, the writing is clearly on the wall: the US needs to make some dramatic changes to our budgetary policies.

At the same time the economy is still in a delicate state. Were we to immediately start with aggressive deficit reduction measures, it could push the economy back into recession. Policymakers must chart a course where they reassure our creditors that the US is not too risky a place to lend, without destabilizing the fledgling recovery. The most prudent course of action would be to immediately announce a credible plan for addressing the nation's budgetary challenges, while phasing in the policy changes themselves very gradually – so that they come mainly after the economy has fully recovered.

This brings me to one of the major topics of today's hearing, forming a Fiscal Commission. The Committee for a Responsible Federal Budget supports the creation of a bipartisan commission to help tackle the nation's long-term fiscal challenges. Our former co-chairman, Leon Panetta, has previously testified in support of such a commission, and many members of our board, myself included, have worked with a number of Members of Congress to develop the details of how such a commission might work. The benefits of a Fiscal Commission are many. It would: 1) send a credible signal to creditors and financial markets that the US is serious about tackling its fiscal challenges; 2) establish a shared fiscal goal; 3) create a bipartisan forum where these issues can be discussed; 4) establish a process to ensure that the recommendations are considered; and 5) lend political cover.

First, establishing the budget commission is one potential way to meet the twin goals of sending reassuring signals to markets that we are serious about fiscal rebalancing without implementing contractionary policies too quickly and harming the recovery.

I cannot overemphasize the importance of this. If large amounts of borrowing will be necessary to keep the economy from falling back into recession, we need to be able to access to global funds at low rates; and we need lenders and investors to trust that we are good for the money. If creditors fear Washington will continue its business as usual – but with a large cadre or retiring baby bombers and rapidly growing health care costs – they might begin looking for other investments and/or demand higher interest rates.

Of course, for them to believe we are serious about reducing our deficits, we actually have to be. The commission must represent a real commitment to dealing with the growing debt problem; not an excuse to continue to delay action.

A second advantage of a commission is that the creation of a mission allows for the opportunity to create a "shared fiscal goal". In many ways it is less important the precise parameters of such a goal than that one exists. In the past, there have been fiscal goals to eliminate the budget deficit, to cut the deficit in half, and to reduce the deficit by a certain amount. Given our current situation, a desirable goal would be to focus on the debt, and on stabilizing it at a sustainable level so that the public debt is no longer growing faster than the economy.

The Peterson Pew Commission on Budget Reform strongly believes that establishing a fiscal goal is a critical part of moving forward on improving the fiscal landscape. We know that the policies to achieve any of these fiscal improvements are difficult, involving spending reductions or tax increases, and in all likelihood both. In the absence of a single

fiscal goal, though, it is too easy for lawmakers to oppose any set of hard choices others suggest without offering alternatives.

For instance, it is just not a fair comparison if one politician says we should fix Social Security by raising the retirement age, broadening the tax base, and slowing the growth of benefits for well-off retirees, while another says we should leave the program alone but for bolstering benefits for widows and orphans. The first lawmaker has suggested a path towards solvency. The second has proposed to make the situation worse, but may well have developed a winning campaign platform. Given that there is no question Social Security needs to be reformed—as its own Trustees tell us year after year—the discussion should not be over whether to fix it, but how. Therefore, the fairest way to set a standard is to start with a broad agreement that the Social Security system must be made solvent, and then for a group of policymakers to discuss and debate the merits of various alternatives for getting there. The same is true for the boarder budget situation as all projections tell us. But without that shared fiscal goal as a starting point, it is just too easy to take the irresponsible way out and not come up with real solutions.

Third, while it seems simple, it will be quite beneficial to create an organized forum where the discussion of how best to achieve these fiscal goals can be hashed out between members of different parties. As a political independent and a member of a bipartisan organization, I strongly believe in the benefits of creating safe environments for bipartisan discourse; environments away from the cameras and the pollsters, where Democrats and Republicans can engage in real policy discussion. And where policy makers need not fear political punishment from either party – or the public – for vetting unconventional or unpopular ideas to get the debt under control.

The Committee for Responsible Federal Budget regularly hosts bipartisan policy discussions for Members of Congress on a variety of budget topics. Lawmakers regularly say that one of the main benefits of these is having time set aside to dig deep into specific policy issues with colleagues from both sides of the aisle; and to be able to do so honestly and openly.

There should be an expedited process for considering the commission's recommendations, otherwise, there will be too many opportunities for delay and diversion by those who do not want to face up to the tough choices that will be part of a realistic plan. There are pros and cons to whether only a single recommendation should receive an up or down vote or whether alternatives that achieve the same fiscal goal should be permitted. The fewer alternatives, the less room to derail the process. However, these policy decisions will be so large and encompass so much of the budget, it

may be desirable to let different alternatives be discussed, as long as they achieve the stated fiscal goal.

Finally, the commission lends the political cover that will be necessary in actually passing a plan that will be effective in stabilizing the budget situation. Any plan that realistically tackles our budgetary challenges is, from a political perspective going to be—to use a technical term—brutal. It is going to involve spending cuts and tax increases, they are going to have to be big, and almost all parts of the budget will take a hit. There is no way that a politician or political party that is understandably concerned about their own future can go out on a limb and advocate any set of policies that will be large enough to fix the problem on their own. The benefit of the commission, or any similar collaborative process, is that each member can support the total package while acknowledging that it is not their first choice and there are parts they do not support on their own. This type of cover will be critical in passing a final agreement.

Let me conclude by saying I wish we did not need to consider a commission. When it comes to fixing the budget situation, we should ***just do it***. My preference would be to get started on these policy decisions immediately, with a bipartisan announcement from the White House and the leaders of both parties and supportive individual Members of Congress of an agreement to stabilize the debt over a reasonable amount of time. They would announce the commitment immediately and then spend the next half year or so agreeing on the specific policies which would gradually phase in over time. That would be my first choice.

But due to the incredible political polarization, and the types of policies that will be involved, we have seen that there is considerable resistance to taking the necessary actions. Thus, a Fiscal Commission may well be the best mechanism to jumpstart the process and make the decision making process a bit easier.

There are many details to work out from the breadth of the mandate, to who should be on the commission, to the timeframe, to the specifics of the expedited process. I am happy to talk about any of these details, but the bottom line from our perspective is, whatever works. A commission is not an easy solution and it is not a panacea. It will only work if it is backed by sufficient political will. Therefore, I think in crafting the specifics of a commission, it is most important to include details supported broadly within Congress. Members of Congress need to buy into the process from the very beginning for it to be successful. Ideally, they will see the benefit of having a group of policymakers develop a credible plan to set the U.S. on a sustainable path but they should not have excuses to

disengage from the process because it will be a challenging vote, no matter how much political cover the commission is able to lend.

Ultimately, a commission is the beginning of the process, not the end. It will fail if there is not already the commitment by enough Members to working on the long-term fiscal health of the country. But as a mechanism to send a reassuring signal to our creditors, help focus on a single fiscal goal, provide a collaborative environment to work out the details, help move along the final recommendation, and lend political cover, a commission could be immensely helpful.

I look forward to your questions.

Chairman CONRAD. Thank you. Again, really outstanding testimony, and we have come to expect that from you, Maya, and once again you delivered. We appreciate it very much.

Let me just begin with questions, and I will be brief in my questioning round so that others have a chance, and we will go several rounds if need be, given the time.

It seems to me there are broad areas of agreement that we have heard here this morning, that we absolutely need a special process focused on the debt. There is broad agreement that everything has got to be on the table, that it is bipartisan in nature, both in form and in substance, that it leads to an assured vote. Those are the areas where I hear broad agreement. On the question of everything on the table, maybe, Doug, you had a little bit of a difference there, but not dramatically so.

Where I hear differences is on the question of outsider/insider. Should it all be members and representatives of the administration? Or should there be some outside, as one person described me, "Big Foot" economists or business people who have national respect, who could help bring this out of partisan conflict and put a focus on national interest?

One thing I have wondered is: Is there a possibility of some kind of compromise in that area? Senator Gregg and I have a proposal that includes all Members of Congress and the administration on the idea you need people with skin in the game. But in listening to Mr. Walker, he made a number of points that are very important. One is the ability to go around the country and listen and make the case to the American people as to the necessity. And Members of Congress, by definition, have limited time for that kind of enterprise.

One thing I thought of as I listened to Mr. Walker is: Is there a potential for an advisory group to the commission that would have people of national reputation who could be engaged in this process to go around the country? Because at the end of the day, we are going to have to get votes here in Congress, and if we do not have the leaders of Congress—Maya, you made the point. If we do not have leaders of Congress of both parties bought into the process and deeply involved in the production of a product, my fear is you will not get a favorable vote.

And so one thing that crossed my mind is: Is there a possibility of a working group or task force who has the responsibility, made

up of members, representatives of the administration, as Senator Gregg and I have designed it, but have an ancillary group that helps sell this to the American people? Mr. Walker, what would you think of that?

Mr. WALKER. Mr. Chairman, first I think it is critically important that we have a commission that ends up meeting the criteria that lay out. Reasonable people can and will differ about what the composition ought to be. I think it is possible to come up with some type of a compromise. My view is that certain elements are essential. Whatever commission exists, there must be a super majority of elected representatives on it. Whether or not it is 100 percent, people can debate that. I think the administration must have representatives because, after all, the President has got to decide whether or not to sign the bill or not. So I think that is critically important.

The reason that I think that it is desirable, strongly desirable to have some non-government representatives is based on two things: One, what do the American people think? The American people think by over a 60-percent margin that it should. Second, I have been to 46 States in the last 4 years, and I can tell you that there is a significant time commitment that is going to be required, and I can tell you that if somebody has a D or an R on their sleeve, they will be discounted dramatically, in addition to the fact that sitting Members of Congress and administration Cabinet Secretaries do not have time to participate.

The third point would be if you are going to divide it to where you are going to have a certain group that is going to bear a disproportionate share of the burden for the public education and engagement, they have to have some official designation because, otherwise, I think it is going to undercut the credibility of that group. And I also think that it would be important that you have at least a couple of members of the commission attend each one of those in order to show that this is linked directly to the commission. That way you might be able to leverage the time commitment that otherwise—you know, spread around the time commitment and leverage appropriately to make sure you do have commission member participation, but recognizing there is a limit as to how much they are going to be able to do.

The last thing. I cannot overstate the importance of the citizen education and engagement component of this commission. In my view, the Bush 43 Social Security reform effort was fundamentally flawed and had no chance of success from day one. Irrespective of what you think about their proposals, the process was fundamentally flawed. In my view, the current health care reform process has been fundamentally flawed with regard to citizen education and engagement. It is critically important that this one not be. And that means the time commitment and how you go about interacting with a representative group of Americans, leverage the Internet for public policy purposes in ways that it has never been leveraged, get media involvement in these things that are going to be critical to success, in my view. Thank you.

Chairman CONRAD. Mr. Holtz-Eakin?

Mr. HOLTZ-EAKIN. I guess I would differ with David in some regards. In my view, the purpose of this is, in fact, to fix the percep-

tion problem with Congress. I do not disagree with the insight that Americans are suspicious of people with R's and D's on their sleeve. But by addressing this widely understood threatening problem, you would, in fact, immediately address the concerns of the American people and the reason they are suspicious of made-in-Washington solutions. You know, solving a real problem is the best thing you can do at this point in time.

So I think to structure it so that members solve the problem will, in fact, address the credibility issue, and, quite frankly, you know, legislation comes out of any such task force, goes through the Congress, gets signed by the President, we are going to have among the most dedicated salesmen you can imagine on the planet, which are Members of Congress running for re-election, explaining why they voted for this; the President of the United States, any President, we have noticed, does have the ability to reach the American people.

So I do not see the need in this venue to supplement the ability to reach out to the American people. I think that gets taken care of automatically. The credibility is restored. The outreach is there.

I think the harder question, as I said in my opening remarks, is about the composition and whether you bring the administration in or not. You know, the goal is to have a nice, level, bipartisan playing field within the commission so you can grapple with very tough problems. There is no bigger Big Foot than any President of the United States, and you will not have a level playing field if the administration is in the negotiations. The President belongs to a party. That party will be perceived as having a greater say and a greater stake.

So I think that for the first attempt at this, it is better to err on the side of not taking that step, but I could be talked out of that. I think it is a hard call.

Chairman CONRAD. All right. Mr. Galston?

Mr. GALSTON. Well, this is not an easy question, but I will try to provide an answer. My point of departure is a problem I have been studying for a long time—namely, trust in Government. And, regrettably, trust in Government, particularly the Federal Government, is near an all-time low as we convene today. This is not a healthy situation for our Republic.

And two things that are contributing to mistrust are excessive political polarization, which has developed over a period of decades in our Nation's capital, and gridlock. And in my judgment, the most important way to begin to rebuild trust is for members of the two political parties to get together and actually accomplish tasks that the American people want them to accomplish. And any commission that contributes to that objective is an important step in the right direction for governance above and beyond the specific problem that it solves, whether it is a fiscal problem or military bases or whatever it may be.

Family, I am totally persuaded by the argument that the commission should be dominated by people who have skin in the game, that is to say, Members of Congress and representatives of the administration. I do not think it should be one to the exclusion of the other. Whether the commission also includes one or two experts who do not fall into either of those categories is, I think, a detail

and not the most important detail. I could go in that direction or not. But the point is that the composition of the committee and the rules of the committee must ensure that people with political skin in the game from both sides of the aisle have to concur in the results. If that is the product of the rules and the composition of the committee, fine. If not, I think it will fail.

Chairman CONRAD. All right. Maya, what would you say to that question?

Ms. MACGUINEAS. I love the idea. I think it is a great idea. I have sat on the board of a number of organizations where we have had a board of directors and a board of advisers and they have played different roles. You have had the decisionmakers in one capacity and the advisers intimately involved in the discussion, but they at the end of the game were not the people who were responsible for making the decisions.

I think when you look at outsiders and members, there are two different skill sets they bring. I think outsiders--and take no offense to this, but oftentimes can come up with better policy ideas because they are not politically realistic. I also think those ideas might not go very far because they are politically realistic. And I will tread where I probably should not. I will give an example that is close to home right now. But if you put a group of outsiders together on health care, we would all say part of the problem with health care costs is on the tax side, and we need to look at the employer-provided exclusion of health care. If you then put that to a bunch of politicians, they would say, "That is really hard. The farthest we can go is looking at taxing certain kinds of health care plans." And in the end, it is the decisionmakers that allow the policies that are actually implementable to get put into the policies. They may not be the perfect solutions from an outsider's perspective, but they are what can get done.

So, again, for me the bottom line is whatever works, whatever the most colleagues in the Senate and the House think is the right way to proceed is what we should do. But I think having decisionmakers make up the panel is the right way to proceed.

Chairman CONRAD. All right. Senator Gregg?

Senator GREGG. Thank you. First off, your testimony was superb, but that decision was excellent. This whole issue of composition is critical to the effort.

I guess my reaction is: Who would you choose to put on it besides Members of Congress? When you start choosing outside individuals, you immediately have to take care of so many different groups which have legitimate claims to participation, from the AARP to the Concord Coalition, from the unions to the chamber of commerce. I mean, you would end up with a very large group of people, and in the end it would be very hard to be assured that you had a bipartisan solution that was politically bipartisan, because at the essence of this, for this to work, the American people have to feel that both parties have joined hands and it is fair and it is bipartisan. That means the players who vote on it have to have that sort of risk. And that is, I guess, why I still stick with the member only approach and members of the administration.

But the independent advisory group, assuming you—I think it is an excellent idea. I mean, I cannot imagine how there is any down-

side to that, especially if you can get people who are willing to do it knowing they did not have a vote, but who had the status to do it and give you the really good additional thought process which would come from that sort of group participation and the outreach issue. So it is a difficult question, but I do still come down on the side of members and the administration.

I guess timing is an issue. Ms. MacGuineas, you made the point that this could affect the recovery. I am sort of of the view that if we were to actually put this in place, obviously a legislative event is not going to occur for a year, at a minimum, because this commission is going to take a year to act and then your legislative events, which would have to be legislated, then the actual action from the legislative events, because you are dealing with 50-to 75-year actuarial times frames here, would be very extended. I do not presume this group would come back with anything that was immediately precipitous in its proposals. I think what it would come back with is a series of decisions which put you on glide path to a much more solvent entitlement structure over 50 to 75 years. So that would be a phased-in event. So I don't see this immediate recession, which is severe and difficult, being impacted—except that I think the value of the dollar might be impacted, and our capacity to sell debt might be impacted if we actually had a group like this that people took seriously.

So I guess I would like to get your reaction on timing. Should the commission report be next year with action in the following year? Should the commission report be next year with action next year, recognizing next year is an election year? Should the commission report be action after the election—report after the election and action before this Congress adjourns, in other words, in the period from November to January being the legislative event? Do people have opinions on timing? David.

Mr. WALKER. Yes, Senator. Let me answer that question first and then touch on a followup to what you said.

I think you need to announce the agreement to create such a commission and hopefully enact it into law ASAP, no earlier than early 2010.

Second, I think the——

Senator GREGG. No later?

Mr. WALKER. I apologize. Thank you very much, Mr. Chairman. As soon as possible, no later than early 2010.

Senator GREGG. That is the creation of the commission?

Mr. WALKER. That is the creation of the commission. Announce the intent to do so, pass the legislation in early 2010, and people can debate what "early" is. That will send a signal that we are serious, we have a process in place.

I think you begin the citizen education and engagement effort in 2010. You then ask the commission to be able to potentially report on issues and installments, probably not reporting on the first issue until after the midterm elections. For example, it is possible to probably get more agreement on statutory budget controls that would be put into effect once we have turned the corner on the economy. It is probably easier to get agreement on a Social Security set of reforms. So the commission could report in installments on issues and then save some of the tougher things to the end.

For example, I think the toughest thing is going to be taxes and health care, and so I think set it up early in 2010, get the public education and engagement effort started. Do not have specific recommendations come until after the midterms, but think about reporting installments.

Last thing. I think there is a difference if you talk about outside people for the commission versus the advisory group. For the commission, in my opinion, it should have nothing to do with the organization that they are with. You should be picking individuals based upon their knowledge, their credibility, their ability, and their willingness to dedicate the amount of time that would be necessary to do what needs to be done. On the other hand—by the way, that means formers. That means like former heads of—former members, former CEOs, former heads of AARP or Government agencies or whatever. That is the kind of people I think you would have to have.

On the other hand, if you have an advisory group, you may face more pressure for groups to want to be represented, and I think you need to think about that. Ideally, your advisory group should also be based on individuals, not groups. But, on the other hand, if you have an advisory group, I think you are going to get a lot more pressure for current heads or current representatives of various advisory groups, some of which have very entrenched views and differing degrees of willingness to be able to state the facts, speak the truth, have everything on the table. You need to think about that.

Senator GREGG. Does anyone else wish to comment?

Mr. HOLTZ-EAKIN. I think the timing issues are tough. The easy ones are certainly set it up as quickly as possible, and I do not worry about the substantive economic impacts in any way impinging the recovery. They are just not going to happen fast enough, and then their nature will be so incremental that I do not think that is a serious issue. And, quite frankly, if you will allow the economy to be an excuse to not act, we will never deal with this because no one is ever going to see a good time to do it.

The real tough one is if you report out, if you deliver it, say, during calendar 2010 and you report out legislation of some scope, I think the tradeoff is you are asking people to vote before the 2012 election. That is going to be tough. But if you do not, then the members who actually put it together may not be around post-election, and so I think you have to recognize that the members have to be there to defend the product with their colleagues, and that does require that the vote come before the election. And that will be—you know you will hear about that. There is no question.

Mr. GALSTON. There is an additional factor that I think has to be taken into account—namely, the proposition that I put on the table that in order to have a chance to succeed, this commission needs to be supported not only by bipartisan congressional leadership but also by the administration. There have been persistent rumors—I have no inside knowledge—that members of President Obama's economic team are, in fact, considering the idea of including some kind of commission in their next budget submission. That would be important, if true, and that I think has a bearing on the

timing, on the timing at least of the proposal to establish the commission.

As for the question of when the vote should occur, I think that trying to time the establishment and the reporting of the commission so that nobody has to take a vote until after November of 2012 would not be the most responsible course of action.

So if you are asking me, you know—it seems to me that a reasonable timetable would be to establish the commission, give it, say, a year to come up with a report, and then have serious consideration of a plan in, let us say, spring of 2011. That I think would be a reasonable timetable.

Ms. MACGUINEAS. Senator Gregg, you actually made sort of my argument I think much better than I did. Clearly, I was not as clear as I meant to be. But I think the benefit of the commission is that it does signal to markets and to creditors that we are very serious about this and then buys us a little bit of time so that we do not have to phase in the policies immediately to create that reassurance, but instead we have time to consider them and phase them in more gradually.

So I think that positive announcement effect is something we have actually seen. There are studies that the OECD has done about how you have seen that in other countries, and as long as the announcement is credible, believable, people really believe that this will be implemented, you see the positive effect immediately, very, very impressive experiences around the world with that.

For the timing, I agree, like everybody else and all of you, that we should announce this commission as quickly as possible. Beyond that, I think the right time is to report the decision in 2010. I think a year—I think there are arguments for before the midterm and after. I do not have a very good political ear, so whatever people think is more likely to make it work. But, you know, in the 2010 year is when the decision for the budget, whether it is just entitlements or everything, should be arrived at and agreed upon and committed to.

I then think you phase in those policies more gradually. Some of them will be phased in quickly. Some of them will be phased in over time. For whatever plan to come out to really be effective beyond just the short term but the long term, it has to deal with the structural problems. That means it is going to deal a lot with entitlements, and those are not things that you can change abruptly. You cannot say today we are changing the entitlement program starting tomorrow. So you are going to stagger the phasing-in of the different parts of the plan.

I also think the need to phase things in, how quickly or how slowly will depend to some extent on how many expiring policies are extended because that will greatly affect our debt situation. It will greatly affect how much stimulus there is in the economy. So you cannot kind of separate what goes on in the rest of the budget before 2010 and 2012, when things are phased in. But I look at announce it immediately, come to a decision in 2010, phase in the bulk of the policies beginning in probably around 2012, depending on the economy.

Chairman CONRAD. Senator Whitehouse.

Senator WHITEHOUSE. Thank you, Chairman, and I thank the panel for being here. I have three observations, and I will fire them all off quickly and then ask you to react to whichever ones you care to.

The first is that I think it is very important that whatever this process is, it be as broad and inclusive as possible. It is very easy to get a small number of people who agree with each other in a room together and then try to shove what they have decided down everybody else's throats, but that will lead to, I think, a very violent kickback from those who are excluded from the process. So as appealing as it may seem on the way in to expedite things in this way, where you have a little group that makes all the deciding and everybody else gets told what to do in Congress, I think that the long-term hazard of that is far worse than the short-term gain. And I think we have seen examples of that very recently here in the Senate.

The second point is that we have half—well, not half, but we have one of the two major parties that have made it apparently a categorical imperative to participate in this that no additional revenues be raised. To me, that is a non-starter. We have a country where 1 percent of the population controls more wealth than the lowest 50 percent, in which CEO salaries compared to regular pay have increased about 10 times. We have Warren Buffett saying that he is offended that his tax rates are so low. You have the hedge fund billionaire idling in his private Lear jet at O'Hare getting ready to jet off to his Caribbean vacation sipping champagne and paying a lower tax rate than the fellow who is standing outside in the rain with the orange flashlights waving the jet off. I mean, it is preposterous.

So, to me, the idea that you cannot deal with revenues is almost beyond logic and sanity, and yet we are faced with that position from the other side.

And the final thing is that I think that health care is different than everything else in our budget issues, and under the theory that the person who only has a hammer sees the solution to every project to require a nail, if you get fiscal people in who do not understand the extreme dysfunction of our health care system and do not have the patience or the knowledge to go in and pick that apart so that our health care system becomes more efficient, then you are going to end up bringing an axe to a patient who may only require an antibiotic. And whether you believe the President's Council on Economic Advisers saying that there is $700 billion in annual waste and excess cost in our health care system, $700 billion with a"B" annually, or the New England Health Care Institute that says it is $850 billion annually, or Lewin or Secretary O'Neill, who both agree that it is over $1 trillion annually, to just treat that as a fiscal problem to me completely eludes the real problem. And because it is the bulk of our fiscal problem, if you have not carved that off, you have a fiscal tail wagging a health care dog with no likelihood of a good answer because you have brought the wrong people into the room.

And so those are my three concerns. I would love to have your reactions.

Mr. WALKER. First, Senator Whitehouse, I think it is critically important that you have an inclusive approach. I like the idea of the Chairman that you have first the commission and then you have an advisory group. I think you need to keep in mind that I think it would be desirable that the commission, the people on the commission are picked because of the individuals, again, balanced, super majority for Members of Congress, representatives of the administration, you may have others, but you are picking them because the individuals—it is broad, it is balanced.

The advisory group could be a way to get organizations involved, a broad cross section of interest groups so that they are heard. On the other hand, they do not have a vote, and the reason being is because some of them are pretty entrenched in their position, whether it be do not raise taxes, do not modify social insurance programs. They need to be heard, but we need to have a process that has a chance of success.

Second, on taxes. Taxes are going up. They are going up on a lot more people than those making $250,000 or more because of a very simple four-letter word: math. The power of compounding. And the longer that we wait in order to achieve a grand bargain, the higher they are gong, for three reasons: one, math; No. 2, demographics, more enfranchised in existing entitlement programs; and, No. 3, political activism. Not all segments of society are equally politically active, and the people who are paying the price and bearing the burden for today's irresponsible and immoral behavior are too young to vote or are not born yet. And the third issue is health care.

It is about more than money, no question, and, clearly, you know, you cannot be just focused on the money. I gave the annual lecture at the Institute of Medicine for the Rosenthal Lecture and talked about all the different dimensions. I would be happy to provide you a copy. But understand this: Congress is punting on the tough choices on health care. It is punting. None of the bills are dealing with the real drivers of health care and are coming up with actionable items to make sure that we bend the total health care cost curve as a percentage of the economy down rather than up. They all bend it up. And so, therefore, the idea that you would not have something with regard to health care as part of this, I think for the reason that you said, it's the single largest driver, you would say, well, that is a huge omission. I think if you cannot even address the single largest driver, then, you know, we are not going to be able to get the job done. But it is about more than money, and you need to recognize that.

Mr. HOLTZ-EAKIN. In terms of the broadness and inclusiveness, I think it is important to recognize that these approaches would require the Congress to pass a law and the President to sign it, and so there is a buy-in at the front end for the process that will deliver the legislation. And it will be far from the case that any such commission or task force would go into a black hole and come out. This would be a year-long effort. Members are accessible during that period, and people will be talking to them about what they thought they ought to be doing. I think that this has a good chance of being very successful in being broad and inclusive, you know, and the membership we have discussed at length.

In terms of what is on the table, I think, you know, there is broad concurrence you have to have everything on the table. There is no question about that.

And I would echo what David said about health care. Health care is different. The great promise of health care reform was the opportunity to deliver the quality of care comparable to what we have now or better at lower cost. There is bipartisan research and evidence that that is where we should be going, and that is not what the bills in Congress are doing. And so there would be an enormous amount of opportunity for a commission to take up that work.

Mr. GALSTON. Well, Senator Whitehouse, I am really glad that you put your three propositions on the table. They are challenging. I have not had the privilege of meeting you, but I think it may be useful for you to understand where I am coming from in this discussion.

I am a lifelong Democrat. I was Walter Mondale's issues director during his Presidential campaign. I served in Bill Clinton's White House, and I went down with the Good Ship Gore not once, but twice. A privilege few can claim.

And, you know, I believe in universal health insurance. I believe in robust programs of social insurance. My fear is that we are not now on a track that will enable us to sustain those commitments, which I think are important moral commitments. That is what brings me to this table.

With regard to your specific points——

Senator WHITEHOUSE. I agree with you there, by the way. Go ahead.

Mr. GALSTON. With regard to your specific points, taxes are going to have to go up. The idea that the Government of the United States is not going to expand as a share of gross domestic product over the next 10 years is in my judgment a denial not only of reality but of necessity. We are now on track, I think, to have a Government that consumes, say, 24 to 25 percent of gross domestic product, which is a step up from average of previous decades. I see no way of avoiding that, and so one question that is on the table is how we can finance that in a responsible way so that the budget objective that Maya MacGuineas put on the table earlier of stabilizing over time the ratio of debt to our gross domestic product can be achieved in a way that is consistent with all of the other commitments that we want to maintain.

My belief is that as we think—it would be a mistake to think only about the total size of the revenue piece. We also have to think about its shape and composition. I think that the Tax Code that we have is antiquated, distorted, and riddled with unfairness, both horizontal and vertical. We need fundamental tax reform that asks questions about a 21st century tax system that promotes economic growth and raises revenue in a fair and sustainable way. All of that has to be on the table for discussion, and in my judgment, the sooner the better.

With regard to health care, yes, health care is different. Unfortunately, it is part of the economy, and so one of the dimensions of the discussion must be the economic dimension. And I say with regret, but consistent with a very important article on the front page of today's New York Times, that of the two objectives that people

had going into health care reform—namely, expanding access and controlling costs—we are on track to do a pretty good job on No. 1 and a very poor job on No. 2. And so if we do not do No. 2 in this bill, we are going to have to come back and do it in some subsequent bill because it is not sustainable to expand access and to do nothing about cost. It is just as simple as that. I am interested in sustainable moral commitments.

Finally, with regard to broad and inclusive processes, well, you know, it is very difficult, at least as a declaratory position, to say I am in favor of a narrow and exclusionary process, right? I am immediately at a disadvantage. I would say this: that regular order in the Congress of the United States has not produced terrific results on the fiscal front in the past decade, and I see no reason to believe that regular order will produce a better result in the next decade. And, therefore, reluctantly, I have come to the conclusion that we need what James Madison called auxiliary devices, of which a commission is one.

Ms. MACGUINEAS. Senator Whitehouse, thank you for your really important questions.

On the first, the question of buy-in, it is a tricky one because you cannot have a group that is so large that it becomes unmanageable. And then, on the other hand, you cannot have a group that is so small that there just is not that broad buy-in from people. It is going to be a tension. there is no perfect solution.

I think one of the problems I have with people sort of standing outside saying, "Well, I wanted to be included," is that so few people have been willing to put forward policies that would actually move us in the right direction on this issue. And I can kind of predict that the people who are on the sidelines saying, "Well, I want to be a part of this, and how come I wasn't?" will not be the same ones who are all along coming up with tax ideas and entitlement ideas and budgetary ideas to help move the process forward. I certainly hope that all of those folks will be included. But I think you are right that the perfect size is—there is no perfect size.

On taxes, taxes should be on the table, and beyond that I completely agree with what David Walker said. Taxes are going up, and they are going up for people who are making less than $250,000. We just have to be realistic about this.

I just spent a couple months trying to do an exercise of just a simulation of what it would take to stabilize the debt at a reasonable level. We are going to have a lot of policy choices that we are going to have to put out there, and they are tough, and there is no way that you can realistically do this on one side of the budget alone. So I hope that everybody who is involved will be able to make that an easier decision for people to back away from some of the promises that have been made that we can no longer keep. The economy and the budget have changed.

In terms of health care, for quite some time now we have heard the narrative that the budget problem, that the fiscal problem is really a health care problem. We have recently spent months and months focused almost 100 percent on health care reform, and, unfortunately, where we are is that health care reform alone, at least what we have now, is not going to come close to fixing the budgetary problems. We are going to have to do a whole lot more.

That does not mean—and I think that those of us who care about fiscal issues are also kind of often painted with a brush of, you know, you just want the numbers to add up, you do not care about the policies. That does not mean we can do this in a non-thoughtful way. When we are dealing with basically the entire Government, we have to think about fundamental tax reform, how to do health care better, how to improve the lack of Government investments. We have a real shortage in some areas of the budget. This is not just cut, cut, cut, and increase taxes. There are some areas that have to be funded better and differently.

I know in the think tank where I work, when I walk by my colleagues all think, "Oh, here she comes again. She is going to want us to pay for our new ideas." It is not a popular position to be kind of the person who is concerned about the budget. It should be part of the task to do it well, is to make sure that the numbers add up.

Chairman CONRAD. Can I just interrupt you and say I have that experience almost every day around here. "There he comes again."

Senator Alexander?

Senator ALEXANDER. Thank you, Mr. Chairman.

I want to thank the Chairman and the Ranking Member for their consistent leadership on this issue. They have been terrific. And I want to thank the four witnesses. I have enjoyed your testimony, and I appreciate your candor.

If I could make three or four observations and then ask a single question. One is on the sense of urgency, you pretty well stated it. The President was off in the right direction. I went to the White House fiscal responsibility summit, and he said to be sustainable we will have to address health care. And then at the White House health reform summit, he even said if we do not address health care, we will run out of money. We will be bankrupt, and the State governments will be bankrupt. So he started out right.

The Republican leader, Mitch McConnell, gave his first address this year to the National Press Club and offered to the President: if you would like to go to work on making Social Security solvent, I am ready to go work on that, and you will get more support from Republicans than the last President got from Democrats. I think that turned out to be a missed opportunity. Nothing happened there, so far as I know. And I think all of you have said that the health care bill may have many good parts to it, but it is not solving the cost problem. It is even so obvious that Katherine Seelye in her Sunday article in the New York Times talking about Americans going overseas to get cheaper health care started out this way: "No matter what Congress does with health care legislation in the next few weeks, one thing is already clear. The result will not do much to control the climbing costs of medical care in the United States." So there we are.

Adding to the sense of urgency is that some of the bills shift to the States some of the costs, and as a former Governor, it is startling to me, the amount of it. The Democratic Governor of Tennessee, Governor Bredesen, estimated over the weekend that the Medicaid shifts to the State of Tennessee would be about $1.4 billion over 5 years, and as a former Governor, I think that either means creating a new income tax for the State or seriously damaging higher education, or both. So that is sort of a back-door way

of avoiding dealing with our problems up here, just sending some of the bill to the States.

Now on the points that you have raised, what about the President? It seems to me the President has to be involved in a big-time way sooner or later in this process. He may not have to start it out. I know about separation of powers, but this group should basically see itself as coming up with a way to help the President solve the problem. The President is the leader of the country. He is the agenda setter. He sees the urgent problem. He comes out with a solution, and it is up to him to persuade at least half of us that he is right. No one else can come close to doing that. We cannot do that here. We are legislators.

So the President has to be involved and if he wants to persuade at least half the country he is right, he is probably going to have to get the former Presidents involved in a bipartisan way to persuade the country he is right.

In terms of timing, another point, you cannot avoid politics on this. You have to stick it right into the middle of politics. This is not the Soviet Union. This is de Tocqueville's democracy. We have to solve our own problems by our own votes.

In June 1992, Ross Perot was leading the Presidential race against an incumbent President and a future President. In June 1992, he was ahead in the polls. Now, he was not prepared for the Presidency, and he made some mistakes. But what was he running on? He was running on a fiscal platform. So this process should be done in such a way to stick it right in the faces of the Presidential race and make everybody deal with it. Otherwise, it will be an exercise in irrelevancy.

So here is my question: I left a budget meeting in my second year as a Senator. I was so discouraged sitting here listening to Senators Conrad and Gregg that I went down to the National Academy of Sciences and asked them a specific question about U.S. comptetitiveness. My feeling was that we are going to just squeeze everything out of the budget that counts, and we are going to spend all our money on war, welfare, Social Security, health care, and debt. We are not going to have anything, for example, for the investments in science and technology that are big contributors to our standard of living.

So I went down to the National Academy of Sciences, and I said, "Could you tell us exactly the ten things we ought to do, the first ten steps we ought to take to make us competitive in the future?" And they formed a commission, which Norm Augustine chaired. They made 20 recommendations to us, and we worked 2 years and passed most of the recommendations. We have that done.

My point is that we do not do comprehensive well in the Congress. Look at immigration. We had our best Senators working on that, and by the time it got to the floor, it just sunk of its own weight. Look at health care. We have a lot of good people working on that. It is having a very hard time, and the number of pages in the bill is growing faster than the debt. It is 2,000 pages now. It is incomprehensible, what is going on.

Then look at economy-wide cap-and-trade legislation. It sounds great, but it is full of mandates, surprises, and taxes for something

that instead we might do with three or four steps in the right direction knowing what they cost.

My question is this: Shouldn't we say that we do not do comprehensive well, that we should be skeptics about anyone who comes forward and says, "I have a grand plan for a big problem to impose on a country this big and complicated" and expect that this commission's report will provide, as I asked the National Academy of Science, the ten steps that we ought to take in the right direction and that the members of the commission ought to all be Members of Congress—there should not be any advisers? You should not be having to worry about the politics of advisers. Ask them what you think if you want. Members of Congress and the President are elected to have the responsibility to act, and if the President has 10 steps to move in the right direction, or 20 or 15, then he can pick the ones he thinks he can pass. He can sit down the way Lyndon Johnson used to do with Everett Dirksen or the way Mitch McConnell invited President Obama to do with him on Social Security and say to us, "We are going to do these four steps first, and when we get these four done, we are going to do these two steps, and then we are going to do these three steps, and this is the biggest problem facing our country."

So I am asking you: Isn't a step-by-step approach in the right direction better than some big, grand, comprehensive thing that is just doomed to fall of its own weight? Mr. Walker, you mentioned 60 percent support for solving this problem. It will not be 60 percent if we all go out there and everybody says it will take Medicare cuts and higher taxes. That will drop fast. So picking the steps you take, moving in the right direction, I wonder if that is not a more likely way to get where we want to go.

Mr. WALKER. That is a lot, Senator. First, we have a dysfunctional democracy. Congress does not do transformational change well in any area.

Third, the historical way of doing things through, you know, trust me, inside the Beltway, Andrews Air Force Base commissions, are over. They will not work anymore. The level of trust and confidence in Government has plummeted. It is not just the partisan battles. It is the ideological divides, the fact that too many people say we cannot raise taxes, we cannot renegotiate the social insurance contract, et cetera, et cetera.

We are going to have to have an extraordinary process. You are going to have to have either an advisory way or in as members some non-elected officials and members of the administration involved who can go out, spend the time, state the facts, tell the truth to the American people, and who are not viewed as being part of the problem, who are viewed as being part of the solution, and who can state it straight.

On health care, four tests for fiscally responsible health care: must pay for itself over 10 years; must not add to deficits beyond 10 years, because the country is going to last more than 10 years and the future is more than 10 years; No. 3, should result in a significant reduction in the tens of trillions in unfunded promises we already have for health care; and, No. 4, should bend total health care cost curve as a percentage of the economy down, not up. No bill meets that. Some do not come close to meeting it. Otherwise,

you are adding a wing to a house that is headed for condemnation and bankruptcy, or foreclosure in today's terms.

Last, the President has to lead. Only the President has the bully pulpit. The President is CEO in addition to commander in chief. The President also has a veto pen. And, therefore, he has got the lead. He has got to buy in. And I would respectfully suggest that George Herbert Walker Bush, 41, and William Jefferson Clinton should be part of this, because those were two Presidents that were very fiscally responsible. They did the following things: One, they broke campaign promises, which this President is going to have to do, too. They broke campaign promises on taxes. Second, they supported the imposition of tough statutory budget controls. No. 3, they did not expand entitlements. And I could go on. But they were fiscally responsible. They need to be recognized, and they could be part of this process, I think.

Thank you.

Mr. HOLTZ-EAKIN. Well, I think in your question you gave a much more articulate description of the problems with the one big commission than I was able to. And one of the reasons that I worry about just having a single commission with a large mandate is the notion of the large unintended consequences that are historically parts of comprehensive approaches to reform and the skepticism that this brings to members and the public, and as a result, the difficulty of actually getting action if you take that as the sole route forward.

So, you know, as I said in my testimony, I see merit in thinking hard about breaking this into compartmentalized pieces that add up to a solution but which do not attempt to do it all in one fell swoop.

Mr. GALSTON. Well, Senator Alexander, you have said a whole lot that I agree with and some things that I need to comment on.

First of all, I think you are absolutely right to say that this has to involve the President and the White House. This is not just a congressional issue. You know, given the design of our Constitution, there are some things that Members of Congress are better at doing than Presidents and vice versa. And more to the point, if the President and the leaders of both political parties in Congress are not in on the take-off of this commission, or whatever it turns out to be, they will almost certainly not be present at the landing.

And so I commented—I do not know whether you were in the room or not—that there has been some discussion among the President's economic team of actually including some sort of commission in the next budget submission. That would be, I believe, an important step forward toward the kind of institutional guarantee of future Presidential leadership in this area, and I think that would be a very positive step were it to occur.

The second thing that needs comment, because I agree and, therefore, I will agree vehemently, is the proposition that there is no way of taking fiscal issues out of politics. That is absolutely right. And these are issues that go to the heart not only of public policy in this country but the way the political parties define themselves and distinguished themselves from one another. There is no way of evading that. And the commission is not intended as an eva-

sion of politics. It is intended to organize a discussion and tee up decisions in ways that facilitate the political process.

And if there is not substantial support among members of both political parties, No. 1, no recommendations will emerge from an appropriately designed commission. No. 2, the recommendations will not pass Congress. And, No. 3, the President will not sign the bill.

So this is political through and through, and it is partisan, it is ideological, but it is more than that. And so the task of the commission is to try to organize politics for effective decisionmaking in a way that, regrettably, regular order has not proven capable of accomplishing, at least in recent decades.

Finally—actually, two finals. First of all, your reference to the National Academy and the investment agenda I think puts a very, very important piece of the overall problem on the table—namely, that if we keep on going down this road, we are going to have a harder and harder time sustaining the level of future-oriented investments, whether it is in science, technology, medical research, higher education, you name it. And that will occur at both the Federal level and, as you pointed out, at the State level, that we will squeeze out our capacity to respond effectively and to invest effectively in those areas.

Finally, with regard to the incremental approach, yes, with the following caveat: In order to succeed in dealing either with the grand problem or with a particular piece of it, be it Social Security or fundamental tax reform or health insurance, health care, and health security, there is going to have to be a balance of proposals reflecting the range of opinions and the kinds of divisions that now define our Nation's politics. And an "incremental approach" that is not broadly balanced at the same time is not going to succeed.

And so whether you are talking about a commission that addresses the grand bargain or a commission that, say, addresses Social Security, there is going to have to be an element of grandeur, if I may put it that way, in the deliberations because, otherwise, they will be one-sided and doomed to failure. So I would sort of split the difference that way.

Ms. MACGUINEAS. Senator, I agree with you that we just do not do comprehensive well, and it may in part be a result of how we all organize ourselves. The committee structure is organized in a compartmentalized manner, kind of the policy world is organized in a compartmentalized manner, and we certainly need to find ways to have more cross-sectional discussions.

That said—and I could go either way on this—I think the comprehensive is a better way to think about the kinds of budget reforms that we have to deal with because budgeting really is about tradeoffs and priorities. And if we were able to do it well, the best approach in my mind would be to take a comprehensive look at the budget, with every single piece of it, and be able to weigh what are our priorities, how do we rank them, are we willing to fund them. If we are not willing to fund them, are we willing to eliminate them?

And there may also be an advantage to this is going to be such a difficult task, a more complex negotiation which actually has more moving pieces, as overwhelming as it may be, sometimes al-

lows the job to get done more quickly. But for me, I just come back to my bottom line of whatever works. If we want to do a Social Security commission or a Social Security working group and a tax commission and the rest of the budget, fine. If we want to do a comprehensive approach and we can do it well, I think probably even better. But whatever works.

And then just finally to your point about, you know, it is going to be hard to get support if it is just about cutting Medicare and raising taxes, one of the problems is we keep giving our sweeteners away. If we proceed by creating a prescription drug plan without reforming Medicare or patching the AMT without reforming taxes or raising the debt ceiling without linking it to some kind of reform, we keep giving our sweeteners away, so it is going to be even harder to put together a package that is politically viable.

Chairman CONRAD. Put me in the MacGuineas camp. Really, you know, Senator Gregg and I have spent, I do not know, over the last 2 years, how many hours talking about all of these issues, but it is probably in the hundreds of hours that we have discussed this. And my own conclusion is that you got tradeoffs that have to be made. This is a budget exercise. And, yes, there are things—as Senator Whitehouse said, health care is beyond a dollar issue, but it is also a dollar issue. Medicare is going to go broke in 8 years. That is reality. It is cash negative now. Social Security is cash negative now. Now, we hope it is going to go cash positive in a couple of years, but it will not be for long.

And so these are very real issues that are going to affect whether or not these programs continue to exist or not or whether they face dramatic and draconian reductions because of a meltdown in the global financial system.

I just had a friend call me who had just been in China meeting with top government leaders, and one of the things said to him was that they have concluded that we are so dysfunctional in our politics that we are unable to face up to the debt load that is on this country that is growing. And they are increasingly convinced that we are headed towards second-class status. And the things that we have had that have maintained our greatness and power as a Nation are in jeopardy.

I do not know how anybody can look at these trend lines and not conclude that it is true that our position of economic strength is at risk. And so something must be done.

I also have concluded, after I have served here 23 years, that the regular order is not going to produce the result that is necessary. If anybody believes that it was going to, all you have to do is look at the health care reform exercise, which I have been deeply involved in. And I would say the Finance Committee plan comes the closest to facing up to it, because it is paid for over 10 years. According to CBO, it does reduce the deficit over the second year by a quarter to one-half percent of GDP, which is big numbers. But as a share of the overall challenge, it is modest. It does not solve the problem. And we have been at this for 2 years, and the President gave a charge to Congress to deal with the cost side of this equation in order to prevent the 800-pound gorilla of deficit and debt creation from swamping the boat. And what has happened? We have made, again, the Finance Committee bill makes things a

little bit better. But does it solve the problem? No. It does not come close.

So the regular order, I mean, the natural tendency in the regular order is both sides get in their crouch, Democrats in theirs, Republicans in theirs. And you cannot convince colleagues to have something that really represents significant deficit and debt reduction, because it becomes largely a partisan exercise, and nobody wants to pay the price.

Senator Voinovich said it so well in his testimony. Nobody wants to experience the short-term pain to deal with long-term gain, because that is not our political system. People are going to face election next year.

So it is so clear to me, it is beyond question to me that you have to have a special process. History demonstrates it. We have reconfirmed it this year with health care reform. But you look back, Social Security, special process; the deficit and debt circumstance we faced in the 1990's, special process.

Senator GREGG. BRAC.

Chairman CONRAD. They are the only things that have actually succeeded is when you had a special process. Senator Gregg raises BRAC as well.

Anybody that thinks the regular order is going to deal with these things, as Leon Panetta, former head of OMB, former chief of staff to a President, told us—not head of OMB—well, head of OMB, chief of staff, also Budget Committee Chairman, said anybody that thinks the regular order is going to deal with this, no way. It is not. Here we had the Majority Leader in the House of Representatives here in a hearing before this Committee, Steny Hoyer, who said, Dr. Galston, much like you, that he reluctantly concluded—reluctantly—that it is not going to happen, we are not going to face up to this debt bomb absent some special process.

And let me just say with respect to the comprehensiveness or the incremental approach, if it is not comprehensive, you do not have the natural tradeoffs that will lead to the grand compromise that is necessary, because people who do not want any reductions in social programs—I do not. I do not want reductions in social programs. But I recognize there is no alternative. I do not want to raise additional revenue, but there is no alternative if we are going to get this country back on track. And there are a lot of ways to do it—let us just take the revenue piece of it—to make our country more competitive and have the revenue system be more fair and more efficient. My calculation is our revenue system is only collecting about 76 percent of what is actually owed. Now, those are not the numbers you are going to get from the IRS. We have done our own internal calculations about what is really going on—tax gap, offshore tax havens, abusive tax shelters. And it is very dramatic what has to be confronted here on behalf of the country.

Senator Gregg, any final comment?

Senator GREGG. Let me associate myself with your passion, Mr. Chairman. I agree with you.

Chairman CONRAD. I want to thank——

Senator WHITEHOUSE. Mr. Chairman, may I say two final things before we go that I do not want to leave unsaid?

Chairman CONRAD. Yes.

Senator WHITEHOUSE. One is that I would hope that the witnesses do not buy into the 2,000-page bill problem/concern. If you actually take a look at the bill, it is written in real big type so that elderly Senators can read it. If you do an actual word count, it is not much longer than a Harry Potter novel. When you are adjusting a sixth of the economy, to devote a Harry Potter novel's worth of words to it isn't saying much, particularly when about half of the language is plumbing language that connects the operative language into the existing code. So if you are looking at this from a point of view of finding a reason to dislike this bill, find some, but do not buy into the 2,000 pages as a serious criticism of the bill. It is nonsense.

The second thing is I will dispute what appears to be the unanimous view of the experts, which I am reluctant to do, but I think the problem with cost in health care in this legislation is slightly different than to simply say that the bills are inadequate on that subject.

We had Elmendorf here, and his testimony was that in those key areas that we need to transform in order to bring down the cost of our health care system, electronic health records, quality improvement to save costs, wellness and prevention investment, increased value transparency, and payment strategies that reward outcomes rather than more work, more procedures. We do not really know very well yet what we are doing. We know that those principles work, but there is going to need to be a lot of fine-tuning and further experimentation done before we get there. And that is very largely an executive function.

The challenge to him was: Why didn't you cost out any of this? He said, "Well, there is a lot of great stuff in there, and there is the potential for significant cost savings." But how it gets administered by the executive branch is going to make the difference. And, unfortunately, because it has been left to us so far, I mean, I think it is a decision one can debate one way or the other, the Obama administration has not yet taken a hard and firm position on what its goals are going to be implementing the tools that we give them. We can give them a lot of tools, but they have to implement them. And so far it has been pretty vapid, frankly, in terms of their pick-up on that. But it is also early in the process. They do not even have a final bill yet to evaluate and to work with.

So I would contend that the situation on health care costs with respect to this legislation is not that it is a failure, because I think to make it more prescriptive in those areas risks hardening up directions that experimentation will find were not the right ones. But it does shift an enormous burden to the executive branch to take those tools and deploy them rapidly and effectively and interactively so that we get the result that we achieve.

That is my take on it. I think it is consistent with Elmendorf's take on it. And it is inconsistent with the view of the panel, so I just wanted to not be viewed as agreeing by silence with that view. I wanted to state again where I think we are on that.

I appreciate the Chairman's courtesy in indulging me to do that.

Chairman CONRAD. Let me just say on the cost question, there are real differences between the five bills that are out there, very dramatic differences. Some of them make the situation on the cost

front worse. That is a reality. That is the direct testimony of Doug Elmendorf before this Committee.

Some of the proposals do improve the cost outlook, although not enough to rescue our long-term situation. I think that is also the fact and also the considered judgment of Mr. Elmendorf, the head of CBO, after many discussions with him on that front.

But the process has not ended. There are more opportunities to face up to the cost challenge, and it is going to be critically important that we succeed in this debate on that issue. That does not take away for 1 minute from the overall need for a much larger effort, because it is very clear now, from any perspective, that we are not going to have dealt with the underlying cost issues sufficiently. So what is being done still has the prospect of being necessary but not sufficient. We are going to have to do much, much more, and it deals with Social Security, it deals with the health accounts, it deals with the revenue side of the equation. All of those things have to be brought before our colleagues, and we simply have to do better. The consequence of failure from almost any economic perspective is an extraordinary deterioration in the position of the United States of America. None of us want to see that. None of us want to leave here having been enablers for a policy that weakened our country.

Senator Gregg?

Senator GREGG. Mr. Chairman, I just think it is important to quantify this problem because the health care bills, as they are pending, do not in any way significantly impact the fact that we are facing a $60 trillion unfunded liability in our entitlement accounts. In fact, they create a new entitlement—two of them create a massive new entitlement which we know will not be paid for in the long run and which will aggravate that number. And, second, the size of this Government will have to grow radically in order to bear the burden of the entitlement accounts which we already have in place because we are doubling the recipients as a result of the retirement of the baby-boom generation.

These are demographic facts, these are fiscal facts which just cannot be denied, and that is why we are going to have to do something much more significant than what is presently being proposed in the area of righting our fiscal house and our ship here as we go forward, or else, as everyone has said, our kids get a country which may be second class. Hopefully it will not be, but it will certainly make the quality of life for them to be dramatically less than what it was for us.

Thank you.

Chairman CONRAD. Thank you, Senator Gregg. Thanks to all of the colleagues for their participation. A special thanks to the witnesses. I think you were absolutely outstanding. I enjoyed very much the thoughtfulness, the wisdom of this panel, just exceptional. The Committee is very much appreciative of your assistance to us.

With that, we will stand adjourned.

[Whereupon, at 12:14 p.m., the Committee was adjourned.]

Statement of Senator Robert C. Byrd for
Hearing on Bipartisan Process Proposals for Long-Term Fiscal Stability
November 10, 2009

Mr. Chairman,

I oppose legislation that would empower advisory panels to have their legislative recommendations considered by the Congress under expedited procedures – in some cases, with limited debate and no amendments.

I understand the attractiveness of expedited procedures, and have even been bewitched by such elixirs, myself. However, it is a dangerous practice, and contrary to the Constitutional purpose of this unique institution, the Senate. One need only look to the budget reconciliation process to understand how such procedures have been and could be abused.

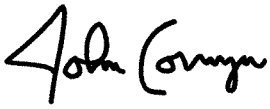
I well understand the argument by some that astronomical budget deficits – driven by irresponsible tax cuts and an ill-considered war – justify this kind of proposal. It is the same misguided argument that was used in the last decade to justify an unconstitutional Line-Item Veto, which, to its shame, the Senate passed. In our rush to demonstrate our devotion to reducing the deficit, we forget that these proposals shift legislative power to the Executive. We forget that we serve with – and not under – Presidents, and that we have a responsibility to jealously guard the power of the purse, regardless of whether the White House is occupied by a Democrat or a Republican.

The Congress is capable of taking on the issue of deficit reduction. We forged a consensus in 1990, 1993, and 1997, without rewriting the rules of the Senate. We can do so again.

We have an obligation to be good stewards of the Constitutional authority entrusted to us. That includes preserving our rights, exercised in behalf of the people we represent, to debate and amend. We must do our utmost to protect that right.

JOHN CORNYN
TEXAS

United States Senate
WASHINGTON, DC 20510–4305



November 10, 2009

Senate Budget Committee Hearing regarding "the bipartisan process proposals for long-term fiscal stability"

Mr. Conrad. Mr. Gregg. Mr. President, thank you for holding today's hearing on bipartisan process proposals for long-term fiscal stability.

The nation's fiscal condition is bleak. The budget deficit for Fiscal Year 2009 was $1.4 trillion, a record amount. The debt, primarily driven by unchecked entitlement spending, is now heading into unchartered territory with Congress expected to again increase the statutory debt limit for the second time this year. Even with another increase later this year, Congress will need to increase the debt limit again next year, continuing the practice of maxing out the nation's credit card now and asking future generations of Americans to pay the bill later.

The Committee has heard from many experts, including the Chairman of the Federal Reserve Board and the Comptroller General of the United States, who have said that entitlement spending is already a threat to the U.S. economy and our international competitiveness. Democrats and Republicans alike want to keep the promises of Social Security and Medicare benefits to seniors, but both entitlements are on an unsustainable path. Both Medicare and Social Security will continue to consume a larger part of the federal budget and crowd out other high-priority items like defense, homeland security and veterans, and will eventually collapse. This is not acceptable.

The Social Security Trustees have told Congress that the Social Security Trust Fund will be depleted by 2037 if no changes in its structure are made. In addition, growing annual deficits in Medicare's Hospital Insurance (HI) Trust Fund are projected to bankrupt the program by 2017. The Medicare program's unfunded liabilities, promises made without a plan to pay for them, equal $38 trillion—three times the current national debt. Failure to act threatens benefits for seniors. While Americans want to keep their promises to seniors, seniors also want to ensure their grandchildren are not saddled with unsustainable spending, debt, and entitlements.

Unfortunately, the current legislative process does not provide an adequate foundation for Congress to confront the nation's largest fiscal problems. That is why I joined Senator Feinstein by cosponsoring the Social Security and Medicare Solvency Commission Act. This legislation would create a permanent 15-member commission that will conduct periodic, comprehensive reviews of Social Security, Medicare and Medicaid with the goal of recommending to Congress and the President a benefit and revenue structure that ensures the adequacy and solvency of these programs. The review will include: (1) the programs' current and long-term actuarial financial condition; (2) problems that may threaten their long-term solvency, and potential solutions; and (3) recommendations and proposed legislative language that will ensure their long-term solvency.

The bill requires the bipartisan Commission to operate in a transparent way. The Commission must conduct public hearings around the country, including places like Bismarck, North Dakota, and Nashua, New Hampshire, when developing its recommendations. But unlike what tends to happen to commission reports, Congress cannot simply ignore the Commission's legislative recommendations. The bill sets mandatory timelines for Congress to introduce the Commission-recommended legislation, take committee action and schedule debate.

There is bipartisan recognition that Congress cannot continue business-as-usual. A recent letter sent by ten members of the Democratic caucus to the Senate Majority Leader states, in part, that "as part of the debate to increase the debt limit, Congress needs to put in place a special process that allows Congress and the Administration to face up to our nation's long-term fiscal imbalances." Congress can no longer afford not to act. But when it does act, Congress must do so responsibly and consider workable solutions to address our nation's long-term fiscal challenges.

Again, I thank Chairman Conrad and Ranking Member Gregg for holding today's hearing.

DATA-DRIVEN PERFORMANCE: USING TECHNOLOGY TO DELIVER RESULTS

THURSDAY, DECEMBER 10, 2009

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, DC.

The Committee met, pursuant to notice, at 10 a.m. in room 2SD–608, Dirksen Senate Office Building, Hon. Mark Warner, presiding.

Present: Senators Warner.

[presiding], Cardin, and Whitehouse.

OPENING STATEMENT OF SENATOR WARNER

Senator WARNER. Thank you all for being here today to discuss the importance of Data-Driven Performance and Technology's Impact on Results.

I want to start my comments this morning by again thanking Chairman Conrad and Ranking Member Gregg for starting this Senate Budget Committee Task Force on Government Performance.

This task force is will be taking a broad look at how we can improve the effectiveness of new and existing programs within the Federal Government. As part of that charge, our first hearing—and I'm glad to see a few folks back—examined our current performance information base and we concluded that we need more meaningful outcome data from across the government agencies and programs. If we're going to make sure we are collecting and assembling the right information, how do we make sure that we really get that important data and do we have the technology in place to deliver that information in a way that's user-friendly to all of our constituencies, we the Congress, the American people, and our Federal work force?

Today's hearing will examine the government's information management challenges and factors that inhibit the ability to get valuable performance information, and I want to say at the outset we've got two great panels.

Our first panel, we'll hear from President Obama's two chief technology leaders, both good friends, Aneesh Chopra, the Federal Chief Technology Officer, and Vivek Kundra, the Federal Chief Information Officer.

They will share information about their new plans to increase availability and use of data and particularly in light of the new Open Government Directive that was issued by OBM Director Peter Orszag earlier this week.

We'll also hear from two leading practitioners—folks who are trying to get it right within the technology sector. Mr. Roger Baker, the CIO from Veterans Affairs, who recently halted 45 IT projects at the VA and is making progress toward increasing the use of data to improve IT organizations.

Nothing sends a shock wave across the system more than actually bringing some projects to a halt, to try to say hold on here, let's see what's working and what's not. And someone who is delivering more effective service at the state level.

I do think there are things we can learn at the state level. As a former Governor, I clearly feel that way Mr. Brad Douglas, Commissioner of Administrative Services from the State of Georgia, who will discuss his work using data to transform the state and how he got the right people, processes, and technology in place to get results.

But before we hear from our witnesses, I'd like to again take a few minutes to talk about our task force's progress since our last hearing. I want to particularly thank all of our staff who's been kind of a small band of metric-focused system-delivery-focused program-saving activists who hopefully will, while small in number, will be able to do some good things in the coming months and years.

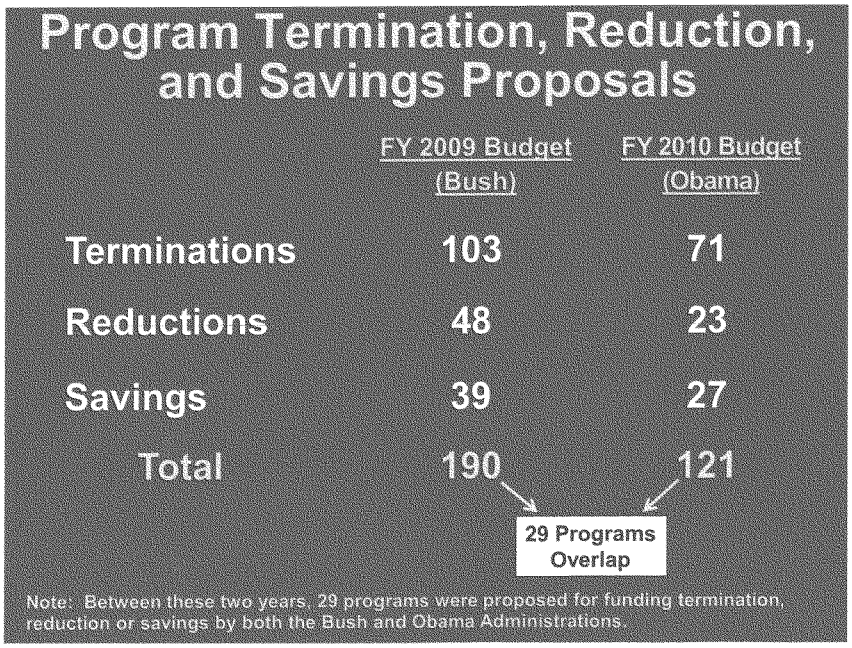
A couple reports. One, we continued our investigation into the Federal Performance Reporting Requirements and are developing recommendations on what to eliminate and what data is needed.

One of the things we really want to do in this effort is not simply add, from the congressional standpoint, a whole lot of new reporting requirements without first perhaps giving some relief to the Federal work force by saying, maybe there is some of this that we don't really need. Let's focus on what we truly need, not just simply volume, quality over volume.

In fact, we want to get some additional thoughts on that subject and in the spirit of Tuesday's news from the White House about Open Government, I've actually developed a new feature on my Senate website that will collect suggestions from Federal employees and the public on how to reduce and improve our existing reporting requirements. So we want to hear from our constituency, the Federal work force and from the public itself in terms of what data we should be collecting and how it can be more user-friendly.

I hope this new site will open up a dialog with the public and the Federal work force on what they want and need in terms of how government is performing.

The task force also has a separate challenge and one that I know Senator Bunning raised at our first hearing. How do we make sure that we're actually trying to find some savings? We have been reviewing the OMB's Terminations, Reductions, or Savings List.



We've been looking at this list not only from President Obama's budget cycle but also from President Bush's cycle. President Bush, actually OMB under President Bush, proposed a 190 programs for termination, reduction, or savings. President Obama had proposed a 120.

The problem with this, my thought has been, that OMB kind of takes these programs out of context, puts them either in the terminations, reductions or savings category, but there's no relationship between what that program actually does in relation to other programs in the same policy goal area.

One of the things we talked about at our last hearing is that we were taking a couple of broad policy areas, such as Food Safety, higher education, and work force training for one. We're looking at how we're doing some program mapping to identify the overlap amongst these various programs.

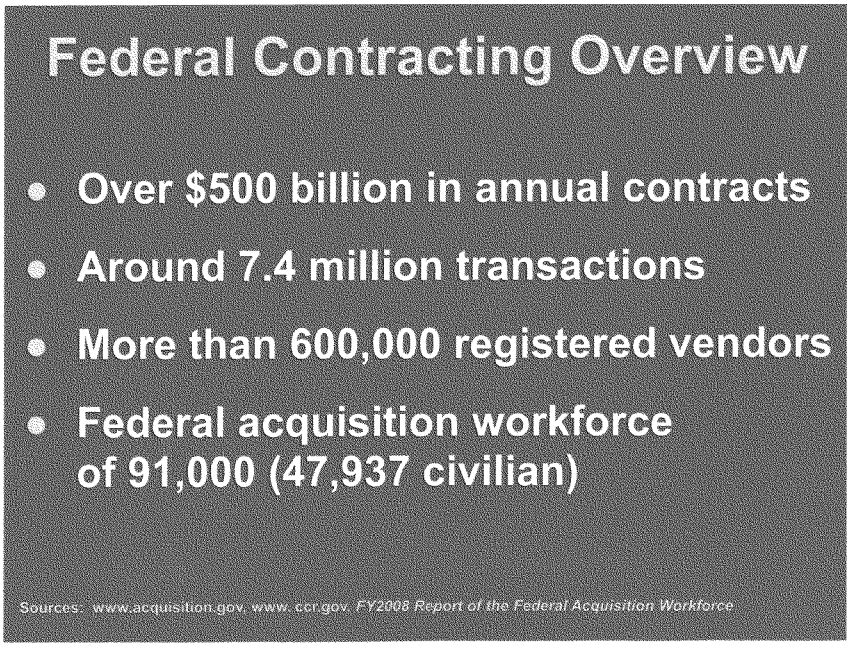
Generally speaking, and Senator Bunning raised this at the last hearing, OMB puts out this list each year and then Congress, for the most part, proceeds to basically ignore the list. Again, one of the reasons why, I think, is because there's not that relationship of which programs should be terminated or reduced or there might be great savings from in placing them in the context of other programs in the policy area. The other thing is we thought we would try is to zero in on those programs where there's been overlap between both President Bush and President Obama, so there's no question about partisanship or particular president's agenda item. We have found that there are 29 programs that overlap between the Bush list and the Obama list and we really want to zero in at those and see if we might be able to secure some savings.

Additionally, and this might be a bit more of a sensitive subject to our first panel of witnesses, I've been looking at the recovery.gov reporting and talking with Earl Devaney, the head of the Recovery Accountability and Transparency Board, to learn from his experiences about the quality and transparency of Federal data.

I know there's been some efforts to get out the Recovery Act information and it's had some fits and starts. Mr. Devaney has been talking about the challenges he's seen as a result of different reporting requirements, different time periods, and varying data definitions.

For example, usaspending.gov and the Federal Procurement Data System both provide reporting on essentially the same system and now we're talking in terms of Federal contracting and this is a big universe.

Amy. Just to give you a sense of the scope here, there are about 600,000 registered vendors that create more than seven million transactions and the spend is over $500 billion.



So we're talking about a huge universe here of Federal spend across the whole state government and with these two sites basically reporting the same information but in different formats, measuring different time periods, it really causes, I think, confusion amongst the public, the work force, and great sometimes fodder for the press.

So we've got to have a better system and why do we need two sites, which one is more accurate. We have to look at ways to standardize this so we've got a common reference point where we can all at least start to debate from.

I've also been looking at our current IT operational structure and planning capacity. It appears that we need a stronger governmentwide technology infrastructure to support the growing demands for a more open and transparent government. This is subject matter that both Aneesh and Vivek are very familiar with because this is an effort that we took on in Virginia where we tried to consolidate our more than 93 separate CIOs, where we had literally hundreds of different systems that were not interoperable and we tried to bring them under a single source of contracting oversight. And while I'm anxious to hear from our colleague from Georgia, I know that it's a great plan in theory, it is hard to implement. As we still continue to have some bumps in Virginia, but that doesn't mean we don't need to go down that path, and to my understanding, I'm anxious to hear from Aneesh and Vivek to make sure my understanding is correct.

Agencies have primary authority for IT planning and acquisition and OMB's role is to provide overall oversight and I know there is an Interagency CIO Council led by the OMB to promote cross-agency collaboration. Some of the questions I have: does the CIO Council offer enough governmentwide planning capacity or do we need to strengthen planning for governmentwide IT investments? Do we make sure that we're going to have systems that are interoperable, that are truly cutting edge, and to make sure that we approach this from a whole enterprise-wide basis rather than agency by agency?

I'm also curious, and to that point, about the overlap between agency investments and how can we leverage savings by consolidating some of this spending? Again, bulk purchasing is a common factor and common use that most businesses and most households use. Can we do a better job on the Federal IT side by leveraging our purchasing power across all these systems?

And is there a system for tracking what agencies spend on IT software and hardware, and are there cost controls in place?

I know our witnesses today will share more about how we improve the availability of governmentwide data, how we provide examples of how we can actually use this data for better performance, how we can measure and use this data to look at these program overlaps in some of these areas, for example, that OMB has already pointed out for savings reduction or termination. We really would like to show some tangible early results. I know both Aneesh and Vivek would, as well.

Senator Bunning is not with us yet. So why don't we go ahead and go to the testimony.

First, we'll hear from Aneesh Chopra and it's great to have Aneesh here. He's been a good friend and colleague for many years. Mr. Chopra is the Federal Chief Technology Officer for the United States. He previously served as Virginia's fourth Secretary of Technology.

Prior to his government service, Mr. Chopra was Managing Director for the Advisory Board Company, a healthcare think tank for hospitals and healthcare systems.

And then we'll hear from Vivek Kundra, the Federal Chief Information Officer and the Administrator the Office of eGovernment and Information at the Office of Management and Budget.

Mr. Kundra formerly served in the Mayor Fenty's Cabinet as the Chief Technology Officer for the District of Columbia, responsible for Technology and Operations and Strategy for 86 agencies. Perhaps more importantly, at least in my eyes, Mr. Kundra came to the District because he served previously as Assistant Secretary of Commerce and Technology for the Commonwealth of Virginia.

I want to thank you both for being here. I want to thank you for your commitment to not only this Administration but for taking on this very challenging prospect of how we get technology usage right, correct, and in a more efficient and effective way.

So we'll start with Mr. Chopra, Aneesh.

STATEMENT OF THE HONORABLE ANEESH CHOPRA, ASSISTANT TO THE PRESIDENT AND CHIEF TECHNOLOGY OFFICER, ASSOCIATE DIRECTOR FOR TECHNOLOGY, OFFICE OF SCIENCE AND TECHNOLOGY POLICY

Mr. CHOPRA. Thank you, Chairman Warner. It is indeed an honor to—let me push the button here. I have to get the technology right, Chairman Warner.

Senator WARNER. Got to get the technology right. Where's the IT guy?

Mr. CHOPRA. Mr. Chairman, it is an honor to be here this morning and, frankly, to thank you for your leadership on this very, very important topic. It goes without saying that we look forward to working with you in the weeks and months ahead on this very, very important topic.

Just as a reminder, President Obama has focused on the importance of technology and innovation in the effective and efficient delivery of government services and no better to reflect that commitment than the fact that on the same day he announced his intent to nominate a chief technology officer and chief performance officer, it was during an Internet address back on April 18th in 2009 that actually had been focused on reforming spending and reducing waste.

He asked that we work closely with the Chief Information Officer Vivek and he directed us, and I quote, "to give all Americans a voice in their government and ensure that they know exactly how we're spending their money and can hold us accountable for the results."

It is indeed my honor and privilege to serve as an Assistant to the President in this capacity as Chief Technology Officer where I'm mostly focused on harnessing the power and potential of technology and innovation, to execute on the President's vision for a 21st Century economy, one where we see jobs more plentiful, American firms more competitive, communications more affordable, broadband more abundant, families more connected, and Americans more safe and secure.

I will reserve a great deal of our testimony for the record, but instead in this hearing would like to highlight three themes that directly relate to the question at hand.

The first is the role of technology to promote open government, the second is how technology interfaces with government performance, and, third, how this aligns with the President's strategy for American innovation.

First, in the area of technology for open government, just last Friday in my capacity as the chair of the National Science and Technology Council's Committee on Technology, alongside my co-chair Vivek Kundra, we organized over 20 agency technology leaders who are squarely focused on the President's vision with particular emphasis on improving government performance through openness.

We have primarily focused on the Directive that you alluded to in your opening remarks that is the foundation upon this set of activities. To remind those who have not been privy to that Directive, just on Tuesday of this week, Peter Orszag published a document to hardwire accountability, access, and public participation into government operations.

This activity reflects a set of recommendations that my office had culled directly from the American people during the summer of 2009. We had conducted a month-long pilot initiative to demonstrate the benefits of emerging technologies, like wikis, blogs, and crowd-sourcing ideas platforms, which in turn attracted over a thousand-plus ideas, blog posts, and others that I'm pleased to report were directly linked to the output.

We focused on three key deliverables in the Directive. First, instructions to the agencies that they provide information in open, accessible, and machine-readable formats. The machine-readable aspect of this may sound a little bit like an odd requirement but we view it as an essential criterion to enable third party application development at very low marginal cost.

Agencies are required to develop a timeline for publishing new high-value information that we believe will increase agency accountability and responsiveness, improve public knowledge of the agency's operations themselves, furthering the core mission of the agency, spurring economic opportunity, and to be responsive to public need and demand through the processes of open consultation.

Second, we believe this Directive will focus on the key principles of the President's commitment to open government and those being transparency, increasing participatory democracy, and ensuring greater collaboration across all sectors, public, private, and nonprofit.

This Directive calls on each agency to develop a very unique roadmap that fits the needs of the agency itself, but to do so in consultation with the American people as well as those involved in the open government community, so that we don't have a one-size-fits-all but rather a custom- tailored fit open government plan for each agency, which, by the way, will be available at each agency's website, www.agencyname.gov/open.

Third, and perhaps more importantly, the President directs myself and the Chief Information Officer, along with the Chief Performance Officer, who you had testify earlier in this hearing proceedings, to review all governmentwide information policies that might need updating or clarifying, as well as to instruct a series of initiatives on the use of challenges and other tools to promote innovation in government.

I'll ask my colleague, the CIO, to speak directly to the information quality issue that you raised as it is directly addressed in the Open Government Directive.

Now a word about what I've seen in my short tenure as Chief Technology Officer. Briefly, given the time constraints, I wanted to highlight three key case studies that I will leave to my testimony for further review that demonstrate the power of innovation to drive open and efficient government.

The first, how we can move research and development to deployment. The case study here is of the Centers of Disease Control's initiative demonstration project to allow a grassroots voluntary network of local health departments and state health departments to share information on syndromic surveillance.

In light of the H1N1 challenge earlier this year, we turned to this demonstration project for production to help us dramatically accelerate the rate at which we can incorporate public information about the challenges of H1N1.

I'm pleased to report that this proof of concept that we've now moved into maturity, this RND project, has tripled the number of emergency departments who are now providing syndromic surveillance, from roughly 570 hospital emergency rooms in the earlier version to well over 1,500, and that it did so at dramatically lower costs and with unprecedented public transparency. You can see 27 out of 30 jurisdictions were voluntarily participating, publishing statistics on H1N1 at isdsdistribute.org.

Second, I wanted to highlight the role of open standards to promote government as a platform. Here, I'd like to highlight the announcement Secretary Napolitano made yesterday promoting a new platform called Virtual USA that has as its basic condition that we are better off as a nation if we can share information at the grassroots level to improve our response times in case of a disaster, to improve more public safety cooperation and collaboration.

I'm pleased to report that Virtual USA, at virtually no cost to the taxpayer by promoting open standards, has already demonstrated value. In the Commonwealth of Virginia, we've seen a 70 percent improvement in response times in preparations for disaster exercises related to a nuclear power exercise, and cost effectively because they've shared more data, they're able to staff their augmentation activities have fallen by 50 percent because they've had more access to information than they had previously.

Last but not least, I thought I'd highlight this notion of prizes and competitions to spur innovation toward national priorities, and I'll highlight the case study of DARPA's Network Challenge that was just recently conducted highlighting the role of social networking strategies to dramatically improve a particular outcome and here I'll simply say the following.

DARPA wanted to test a very basic hypothesis. How quickly can we mobilize the American people? In this case, it was a competition to find 10 red balloons that would randomly be located throughout the United States and within 9 hours, an MIT team, using the power of social networking, spurred by the role of incentives, enabled about 4,600 volunteers to share information to quickly identify the latitude and longitude of each of those balloons. Imagine the implications of this in helping us to find criminals, helping us

to identify missing children, or any one of a number of topics where taking advantage of the collective knowledge and expertise of the American people would add value.

I've exceeded my time in this testimony, Mr. Chairman, but I look forward to following up on any particular questions or concerns that you may have.

Thank you.

[The prepared statement of Mr. Chopra follows:]

Testimony of Aneesh Chopra
Chief Technology Officer and Associate Director for Technology
Office of Science & Technology Policy

Senate Budget Committee Task Force on Government Performance
December 10th, 2009

"Data-Driven Performance: Using Technology to Deliver Results"

Chairman Conrad, Ranking Member Gregg, and Members of the Committee, it is indeed a great honor to appear before you today. We thank you for your leadership on this important topic and look forward to working together in the weeks and months ahead.

President Obama understands the importance of technology and innovation in the effective and efficient delivery of government services. It is no coincidence he announced the nation's first Chief Technology and Performance Officers during the same Internet Address that focused on reforming spending and reducing waste.

The President directed me, together with our Chief Information Officer, to "give all Americans a voice in their government and ensure they know exactly how we're spending their money – and can hold us accountable for the results." [Weekly Address, April 18th, 2009]

In my capacity as Assistant to the President, Chief Technology Officer, and Associate Director for Technology in the Office of Science & Technology Policy, I am focused on harnessing the power and potential of technology and innovation to execute on the President's vision for a 21st Century economy – one where jobs are more plentiful, American firms more competitive, communications more affordable, broadband more abundant, families more connected, and Americans more safe and secure.

I. TECHNOLOGY FOR OPEN GOVERNMENT

Just last Friday, my co-chair, CIO Vivek Kundra, and I inaugurated the National Science & Technology Council's Committee on Technology with the goal of organizing the

capabilities of more than 20 departmental and agency technology leaders squarely focused on delivering on the President's vision, with particular emphasis on improving government performance through openness. Since his first full day in office, when he issued the "Transparency and Open Government Memorandum", my office has been collaborating with the Office of Management and Budget (OMB) and the General Services Administration (GSA) to develop recommendations for an Open Government Directive setting forth specific actions to make government more transparent, participatory and collaborative.

I am pleased to share some examples of the results of this endeavor with special emphasis on the role of technology and innovation in delivering results for governmental performance.

Open Government Directive

On December 8th, OMB Director Peter Orszag published the President's Open Government Directive to hardwire accountability, access, and public participation into government operations, reflecting a set of recommendations my office culled directly from the American people during the summer of 2009. Over the course of a month-long pilot initiative to demonstrate the benefits of emerging technologies like wikis, blogs, and "crowdsourced" ideas platforms, we attracted more than one thousand ideas and blog posts that directly informed our approach to delivering results in three distinct areas:

First, the directive instructs agencies to provide information to the public online in open, accessible, machine-readable formats. "Machine-readable" may sound like an odd requirement, but it is an essential criterion to enable third-party application development at very low marginal cost. Agencies are required to develop a timeline for publishing new, high-value information that (a) increases agency accountability and responsiveness; (b) improves public knowledge of the agency and its operations; (c) furthers the core mission of the agency; (d) creates economic opportunity; or (e) responds to public need and demand, as identified through public consultation.

Second, the directive aims to instill the values of transparency, participation, and collaboration into the culture of every agency by requiring agencies to formulate an Open Government Plan and website. The directive calls for each agency to develop its own unique roadmap, in consultation with the American people and tech-savvy open government experts, rather than prescribing a one-size-fits-all approach. The plan should reflect the input of senior policy, legal, and technology leadership, as well as input from the general public and open government experts.

Third, the directive calls upon the President's reform team – the Chief Performance Officer, Chief Technology Officer and Chief Information Officer – to review government-wide information policies that may need updating or clarifying to allow agencies to utilize new technologies that promote open government fully. OMB will issue guidance for a framework for the use of challenges, prizes and other incentive-backed strategies for innovation in government.

I've seen the benefits of open government during my short tenure as Chief Technology Officer. When coupled with policy leadership and management focus, these principles can serve as the foundation for data-driven performance.

With your permission, I'd like to share three examples from the dozens of initiatives we've launched in the past year (of the many profiled on www.whitehouse.gov/open) that help demonstrate the relationship between open government and improved agency performance.

II. TECHNOLOGY FOR GOVERNMENT PERFORMANCE

Since joining the Administration this past summer, I've focused my government performance efforts in three areas in which technology can spur rapid innovation and drive results:

1. *R&D*: Moving Research into Development and Deployment
2. *Open Standards*: Enabling "Government as a Platform"
3. *Prizes and Competitions*: Aligning Innovation toward National Priorities

When combined, these three pillars can drive high-performance government. By "platform", I mean a government that uses low-cost information technologies to do what it uniquely can – making high-quality data available, coordinating standards activities across many disparate actors, moving federally-funded research into development and deployment, hosting prizes and competitions – while leaving it to citizens, companies, non-profits, and academic institutions to build innovative tools and services on top of the platform.

To illustrate what this actually means in practice, let me provide one concrete example from each of those three areas:

A. R&D: Moving Research into Development and Deployment

ISDS DiSTRIBuTE Collaborative on Bio-surveillance: On October 7th, 2009, the Centers for Disease Control (CDC) announced an open collaboration with the International Society for Disease Surveillance (ISDS) and the Public Health Informatics Institute (PHII) to improve surveillance for influenza-like illness through the deployment of Web 2.0 technologies built for the needs of "end users" – the myriad state and local public health authorities seeking ways to improve syndromic surveillance and situational awareness.

This effort began in 2006 with demonstration funding by the CDC, and was then scaled to a "proof-of-concept" with additional support from the Markle Foundation. The initiative aligned squarely with the 2006 Pandemic and All-Hazards Preparedness Act which called for HHS to "establish a near real-time electronic nationwide public health situational awareness capability through an interoperable network of systems."

Following the 2009 H1N1 outbreak, CDC leaders turned to this demonstration project as a low-cost capability ready for deployment to enable state and local public health departments to share aggregate-level data on influenza-like illness.

As of this hearing, DiSTRIBuTE has recruited 30 jurisdictions accounting for approximately 1,500+ emergency departments in the country, serving roughly a third of the nation's population. Another dozen jurisdictions have signed letters of intent and are working through the process to join. There are three key points in this case study:

1) *Voluntary Grassroots Participation:* Building on an existing network of 575 emergency departments sharing data with the CDC, the introduction of DiSTRIBuTE into a production system has added coverage for an additional 1,200 emergency departments in less than three months.
2) *Low "Cost to Acquire" Data:* The DiSTRIBuTE collaborative achieved this improved surveillance capability with less than a $3.5M investment.
3) *Unprecedented Public Transparency:* In addition to sharing detailed information with all other contributors through a private web portal, 27 of the 30 jurisdictions currently publish summary statistics for the public to view at www.isdsdistribute.org. We expect those numbers to grow significantly.

B. Open Standards: Enabling "Government as a Platform"

Regional Operations Platform – "Virtual USA": Since the formation of the Department of Homeland Security (DHS), enabling cross-jurisdictional information sharing has been among its top priorities. Hurricanes Katrina and Rita drew attention to the fact that current systems and tools are inadequate, marked by incompatible technology applications and costly data collection efforts that hinder the ability to unlock the true value of data sharing. In response, the DHS Science and Technology Directorate's (S&T) Command, Control and Interoperability Division (CCI) and First Responder Technologies (R-Tech) program have launched the Virtual USA initiative to create a scalable and replicable model for seamlessly integrating disparate data flows and

information management applications to enable effective multi-jurisdictional, multi-disciplinary emergency response and incident management operations.

Virtual USA is notable for its unique philosophy that the control of data remains with the locality or state that develops it. Virtual USA is a state-driven and Federally-supported initiative in that the Federal role is to contribute expertise and funding to help facilitate the exchange of information, while preserving and respecting information origins and the sovereignty of the states. Under the Virtual USA initiative, they remain fully in control of when to share it, what to share, with whom to share, and for what purposes, and responsible for ensuring data timeliness and accuracy. The Federal government also contributes enormously valuable data, such as weather information from National Oceanic and Atmospheric Administration (NOAA) and precise GPS locations of Federal assets.

To give you an idea of the kinds of life-saving results that are possible under the Virtual USA model, Virginia's enhanced information sharing capability achieved a 70 percent faster evacuation decision during a recent Nuclear Power Plant Exercise. Staff augmentation requirements at the Virginia Emergency Operations Center (VEOC) also fell by 50 percent because of the availability of situational awareness tools that facilitate a virtual response.

As of today, seven southeastern states (TX, LA, MS, AL, GA, FL, VA) and DHS have formalized agreements to integrate information sharing across all levels of government as part of the Regional Operations Platform Pilot (ROPP). While each jurisdiction retains its existing geospatial software, this collection of inexpensive data visualization tools enables public safety and emergency response agencies (local, state, tribal, and Federal) to share and visualize information in real time -- e.g., weather and traffic conditions; the location and operational status of power and water lines, flood detectors, helicopter-capable landing sites, emergency vehicle and ambulance locations, evacuation routes; school and government building floor plans; and links to IP-enabled camera feeds. The

ultimate result is for information to flow to those who need it, to save lives, and protect property.

C. Prizes and Competitions: Aligning Innovation to National Priorities

DARPA Network Challenge: On October 29th, 2009, DARPA announced the "Network Challenge" competition to mark the 40th anniversary of the Internet. Building on a strategy born in 2004 to uncover new ideas and innovators, DARPA offered $40,000 to the first person (or team) to successfully report the longitude and latitude of ten large red balloons located all across the country.

The winning team hailed from MIT as a group of researchers studying the role of social networks in spreading information. To prepare for the effort, the MIT Team launched an "all-hands-on-deck" recruitment model whereby the first person successfully reporting one balloon's coordinates would be rewarded with $2,000. In the spirit of social networking, the person responsible for inviting the spotter would earn $1,000, and whoever invited them would earn $500, and whoever invited them would earn $250. To add a sweetener, the MIT team offered the remaining $250 per balloon as a donation to charity, leaving none for them!

Bottom line – DARPA planned to leave the contest "open" for seven days, but the MIT team successfully reported all 10 balloons in less than nine hours, calling on leads from 4,665 recruited members. And many of the nearly 500 competing teams were close behind. It is hard to imagine accomplishing this task without the emerging technologies that have fundamentally changed the way we all live and work. Most importantly, for a small investment, DARPA obtained a treasure trove of useful, real-world data about how self-organizing, Internet-enabled social networks succeeded (and failed) to solve a problem of wide geographic distribution.

Senator WARNER. Mr. Kundra.

STATEMENT OF MR. VIVEK KUNDRA, FEDERAL CHIEF INFORMATION OFFICER, ADMINISTRATOR FOR ELECTRONIC GOVERNMENT AND INFORMATION TECHNOLOGY, OFFICE OF MANAGEMENT AND BUDGET

Mr. KUNDRA. Good morning, Mr. Chairman, and thank you for inviting me to testify on how the Federal Government can use information technology to drive performance.

The American people deserve and expect a government that is accountable and fully worthy of their trust, and the Administration is committed to leveraging the power of technology to drive results.

In the private sector, the competitive pressure powered by technology has unleashed innovation, improved service delivery, and generated savings. Data can be collected, analyzed, and used to make decisions on a real- time basis.

For example, the way goods move around the world has been transformed through technology. People can now track packages with a click of a button and companies, like UPS, are using route planning technology to eliminate millions of miles when it comes to travel and save millions of dollars in fuel costs.

Customer feedback and performance data arms buyers with information to make better decisions and compels sellers to perform or face extinction. Unfortunately, the public sector has lagged in using information technology to drive performance. For example, the closed, secretive, and compliance-based management approach to overseeing more than $70 billion in IT investments has not served taxpayers well.

Investments identified as poorly-planned or managed are placed on a management watch list, which is nothing more than a static pdf document. This approach presumed that the government has a monopoly on the best ideas and the debate was confined to the four walls of Washington.

The Administration believes that an engaged and informed public is a foundation for a government that works for the people. On his first full day in office, the President issued a memorandum directing Federal agencies to break down barriers to transparency, participation and collaboration with the Federal Government and the people it serves.

This week, the Administration issued the Open Government Directive that you referred to, which will hardwire accountability and instruct agencies to open its doors and data to the American people. On June 30th, we launched the IT Dashboard to provide transparency into the performance of Federal IT investments. The Dashboard enables the public to see how IT projects are performing and provide feedback directly to agency CIOs.

To lower the reporting burden on agencies and to support better decisionmaking, we also re-engineered the IT Capital Planning Process. We significantly reduced the reporting burden by eliminating data elements that were collected by 50 percent and also using data feeds instead of paper-based reports on a monthly basis.

The Dashboard is beginning to change the way agencies manage information technology investments. In July, the Department of Veterans Affairs, under the leadership of Secretary Shinseki and Roger Baker, announced that it was temporarily halting 45 IT projects that were either behind schedule or over budget. Last week, the department canceled 12 of these poorly performing projects.

Moving forward, we need to adopt an evidence-based approach of governance by employing platforms like the IT Dashboard across other functional areas of government.

We're beginning to do this by making sure that we're leveraging this in the Open Government Directive and Aneesh and I are going

to be jointly launching a dashboard that will make sure we're held accountable for the performance of the Open Government Directive.

Dashboards can help us report, analyze, monitor, and also predict performance. The Administration is making high-value datasets available to promote national priorities and improve the every-day lives of Americans through data.gov. When the Department of Agriculture makes nutrition information available, families can make smarter eating choices. When the Department of Education makes key information available about colleges and universities, students make better informed decisions about the quality and cost of their education. When the Department of Labor makes safety information available, employers can better protect their workers.

The transformative power of technology to improve performance is evident in our every-day lives. We can track packages, monitor flights, and evaluate the health of our personal portfolios on a real-time basis. Similarly, the American people should be able to track the status of the student aid applications, monitor product recalls before making a purchase and evaluate how their taxpayer dollars are performing.

To change the way Washington works, leaders across the government must establish a culture of openness and accountability. The Chief Performance Officer, Jeff Zients, outlines five key principles for successful performance management program: buy-in from senior leaders, strategic alignment, outcome-oriented targets, relentless review, and transparency.

Technology can support these principles, but technology will not magically translate them into reality. The Open Government Directive demonstrates the Administration's commitment to hardwire accountability and drive performance to restore the American people's confidence in their government.

Through initiatives like the IT Dashboard and data.gov, we're laying a new foundation that changes the default setting of the government from that of being closed, secretive, and opaque, to open, transparent, and participatory.

Thank you for the opportunity to testify, and I look forward to your questions.

[The prepared statement of Mr. Kundra follows:]

STATEMENT OF VIVEK KUNDRA
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OFFICE OF MANAGEMENT AND BUDGET

BEFORE THE
SENATE BUDGET COMMITTEE
TASK FORCE ON GOVERNMENT PERFORMANCE

December 10, 2009

"DATA-DRIVEN PERFORMANCE: USING TECHNOLOGY TO DELIVER RESULTS"

Good afternoon, Mr. Chairman and members of the Committee. Thank you for inviting me to testify on how the Federal government can use information technology to improve the performance of government.

Enabling a High-Performance Government

The Administration is committed to leveraging the power of technology to deliver results. The President appointed a team of senior leaders to drive improvements in performance tools and capabilities, including Aneesh and myself, to make sure that we are executing at the highest standard. The American people deserve and expect a government that is efficient, accountable and fully worthy of their trust.

Through the use of technology, data can be collected, analyzed and used to make decisions in real-time as never before. For example, companies have transformed the way goods are shipped around the world through the effective capture and management of shipping data. Not only can customers now expect to see where their packages are at any point in the shipping process with the click of a button, but they can also ship their packages more quickly and cheaply than ever before. And shipping providers benefit from this detailed data to optimize routes, better predict delivery

times and measure and improve performance. For example, one carrier—UPS—has utilized route planning technology to eliminate millions of miles from their delivery routes, saving 10 million gallons of gas and reducing CO2 emissions by 100,000 metric tons (the equivalent of removing 5,300 passenger cars from the road for an entire year).[1]

Information can be sent across the globe in a matter of seconds, connecting us in ways that were not possible before. Buyers and sellers, students and teachers, governments and their citizens can find one another regardless of physical location and new relationships and social networks can form spontaneously. Twenty first-century technology and telecommunications are flattening communications and markets and have contributed to a period of unprecedented innovation, making us more productive, connected citizens.

Competition enabled by technology has catalyzed innovation and improved customer service. Not only can we buy virtually anything online now, but the availability of other consumer's feedback helps inform our buying decisions. Whether buying a book or booking a vacation, crowd sourced feedback arms us with information to make better decisions and sellers must produce quality products and services or risk becoming extinct.

Unfortunately, the public sector has lagged behind when it comes to utilizing technology to drive performance.

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[1]As reported by UPS 2009-08-04: http://www.pressroom.ups.com/Fact+Sheets/UPS+Saves+Fuel+and+Reduces+Emissions+the+%22Right%22+Way+by+Avoiding+Left+Turns

Closed, Opaque, Secretive: Poor Performance

The government's management of information technology illustrates how a lack of enabling technology and transparency has led to poor results. Historically, the closed, secretive and compliance-based management approach, used to oversee more than $70 billion in Federal IT investments, has not served taxpayers well. If an IT project was identified as being poorly planned or poorly managed, it was placed on a "Management Watch List," which was little more than a static PDF document on a website. This compliance-based approach was carried out behind closed doors with little evidence of improved performance.

Out of the $70+ billion being spent annually on information technology, more than $20 billion was accounted for on this Management Watch List PDF[2]. Taxpayers have spent billions on systems that were mismanaged, poorly planned or ill-conceived from the start. This management approach presumed government has a monopoly on the best ideas, with the debate and engagement limited to the confines of the four walls of Washington.

This Administration is committed to creating an unprecedented level of openness in government and firmly believes that having an engaged and informed public is the foundation for a government that works for the people. On his first full day in office, President Obama issued a memorandum to all Federal agencies directing them to break down barriers to transparency, participation and collaboration between the Federal government and the people it serves. This week, the Administration issued the Open Government Directive to hardwire accountability and instruct every agency to open its doors and data to the American people.

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[2] Reported Q4 FY 2008: http://georgewbush-whitehouse.archives.gov/omb/pubpress/2008/102308_vue-it.html

Building a New Foundation: Open, Transparent and Participatory

On June 30, 2009, we launched the IT Dashboard to provide transparency into the performance of Federal IT investments.

The IT Dashboard is a platform that enables anyone with a web browser to track Federal IT investments and hold the government accountable for progress and results. The Dashboard allows the public to see which IT projects are performing well (and which are not), offer alternative approaches and provide direct feedback to the chief information officers (CIOs) at Federal agencies – in effect, keeping tabs on the people responsible for taxpayer dollars. The Dashboard represents a shift from a closed, secretive and opaque approach to management to one that is open, transparent and participatory.

In conjunction with the launch of the Dashboard, we also reshaped the capital planning process to lower the reporting burden on agencies. We reduced the number of data elements requested from agencies by more than 50 percent, (from 58 elements to 24 elements) significantly lowering the reporting burden on agency capital planning personnel. Rather than annually collecting a massive array of information that might not be used, we shifted to the monthly collection of focused information that informs better decision making.

What gets measured gets done. Narrowing what we measure to key elements ensures we focus on what is actionable, what is most important and what needs to get done.

Even though it is less than six months old, the IT Dashboard is already changing the way in which agencies manage their IT investments. In July 2009, the Department of Veterans Affairs (VA), under the leadership of Secretary Shinseki, announced that it was temporarily halting 45 IT projects which were either behind schedule or over budget. After a thorough review of each project, the VA announced that 12 of these projects

would be cancelled. We were able to catch these projects, in part, thanks to the IT Dashboard, which helped to shed light on the performance of projects across the Federal government. To provide better value, efficiency and effectiveness for taxpayers' dollars, insight alone is not sufficient; action is required. The VA implemented a management protocol that translates insight into action, called Program Management Accountability System (PMAS). This protocol requires projects to establish milestones to deliver functionality to its customers. Failure to meet set deadlines indicates a problem within the project. Under PMAS, a third missed customer delivery milestone is cause for the project to be halted and re-planned.

The Department of Homeland Security (DHS) and the Department of Housing and Urban Development (HUD) are also conducting "bottom-up" comprehensive reviews of their IT portfolios using the IT Dashboard. The reviews will identify problematic projects and outline opportunities for improvement.

President Barack Obama tests out the new Federal Government IT Dashboard outside of the Oval Office on July 2, 2009.

Going forward, we need to adopt an evidence based approach to governance by employing platforms like the IT Dashboard so we can report, analyze, monitor and predict performance. We plan to roll out similar dashboards across other functional

areas throughout the government, including an open government dashboard to track our performance.

In the same way that the Federal government makes better decisions through the IT Dashboard, the Administration is making available high-value data that helps to promote national priorities and improve the everyday lives of Americans through Data.gov. The Data.gov platform was launched May 21, 2009 with 47 datasets. Since launch, the number of data sets has grown to over 100,000, covering everything from healthcare to commerce to education. And the number is only increasing. Thousands more data sets will be published starting this week. When the Department of Agriculture makes nutrition information available, families can make smarter eating choices. When the Department of Education makes key information available about colleges and universities, students can make better-informed choices about the quality and cost of their education. When the Department of Labor makes safety information available, employers can better protect their workers.

Government that Works

Technology is a powerful tool, but technology alone will not improve performance. To change the way Washington works, senior leaders across the government must embrace and establish a culture of openness and accountability.

In his testimony before this Committee on October 29th, Chief Performance Officer and Deputy Director for Management Jeffrey Zients outlined five key principles for a successful performance management program including: buy-in from senior leaders, strategic alignment, outcome-oriented targets, relentless review and transparency. Technology can support these principles, but technology is not going to magically set agency goals, create strategic alignment, develop outcome-oriented targets, review performance or deliver on an open and transparent government.

Given the size and complexity of the Federal IT portfolio, the challenges we face are substantial and persistent. The Dashboard is not a substitute for good management. Its value comes from leaders who use the information on the Dashboard to make tough, evidence-based decisions on the future of IT investments. That is why agency CIOs across the Federal government and the Office of E-Government and IT conduct sessions with program officials and project managers to review program performance and determine steps for turning around failing programs, grounded in the principles that the Chief Performance Officer has outlined.

Closing

For too long, the American people have experienced a culture of secrecy in Washington, where information is locked up and taxpayer dollars disappear without a trace. This led to a poorly performing government, with little accountability and wasteful spending.

In our everyday lives, we can track our packages, monitor flight status and evaluate the health of our personal investment portfolio on a real-time basis. Similarly, the Federal government must aggressively embrace technologies that help improve performance and deliver results. Through initiatives like the IT Dashboard and Data.gov, we are changing the default setting of the Federal government from that of being closed, opaque and secretive, to one that is open, transparent and participatory. The Open Government Directive demonstrates the Administration's commitment to hardwire accountability and drive performance to restore the American people's confidence in their government.

This concludes my statement. Thank you for your time today and I look forward to your questions.

Senator WARNER. Well, thank you, Mr. Kundra. Thank you, Mr. Chopra.

I appreciate your comments. I appreciate the good work you've been doing so far.

I've got a lot of questions, and I want to—I know we're going to hear from Mr. Baker a little bit later. I'm going to circle around to how we make sure the experience at the VA could be taking place across a series of other agencies and we actually kind of shake things up.

I want to start, though, with Mr. Chopra. Aneesh, you mentioned a couple of examples that were good. I wanted you to come back to something we've discussed before, though, because I think it's important, and Vivek mentioned this, as well, how we get some early wins that have an appeal that is broadly based and how we make sure that, if we've got this tool, that we communicate it so again our customers, the American citizens, can use it.

One of the things we talked about, that I think every Member of Congress hears from folks regularly on, is really the opaqueness of the INS in terms of if you deal with Immigration issues, what the status of your request might be, kind of getting through Customs and Immigration.

You've talked a little bit about an ability that you started to see if we could get some real-time ability for somebody who's got an application before the INS to check on the status of their process.

Could you speak to that and see if there are any other kind of early wins and if you've got an early wind, what's your thoughts on how we get it out to something broader than just the kind of folks who follow this day in and day out?

Mr. CHOPRA. Mr. Chairman, thank you very much for the question, and you're absolutely right.

This came up in June of 2009. President Obama had been meeting with Senator McCain and a few other folks on the Hill talking about near-term strategies as we prepared for comprehensive immigration reform.

Following that meeting, the President addressed the press and a few others that had convened and issued a challenge to Secretary Napolitano, directing her that we fundamentally improve the customer service experience for those applying within the U.S. CIS and asked that she work closely with the Chief Information Office, myself, and the Chief Performance Officer. By the way, we did so with no increase in the budget and we did so with no change in any legal framework or regulations.

We quickly identified three areas that we thought, to your language, would be early wins. The first, we wanted to bring greater transparency to what happens when an application actually enters the agency. The systems were not designed to track, like Vivek said, a package ala FedEx internal to the agency. So we quickly uncovered in this first category how might we organize in a more customer- friendly way the key moments when your application is migrating through the system and the agency identified seven steps.

Some of those steps would require more information from the applicant, others would reflect on challenges about data-sharing inside the Administration. So we created a transparent approach to each of those seven steps by letting the American people, the applicants, know where they stood in the queue.

Second insight was we reversed the communication path of traditionally relying on inbound requests, whether they be through a lawyer or through some other means, and actually flipped it to be more open and push oriented.

So to your point, Mr. Chairman, we introduced text message alerts as a free alternative. So that if your application moved from Step 1 to 2 or 2 to 3, you'd be instantly notified and I believe less

than a month or so into the system, 25,000 applicants had registered for the new free text messaging service.

The third pillar spoke more to the issue of performance improvement across the board and what we had done in that regard was to acknowledge that the processes take place when you apply through New York versus Chicago versus, say, Dallas would have different average turnaround times for the application.

So we created a transparency initiative around the average turnaround times by application type that would be made available to the American people and in machine- readable format so that accountability watchdog groups could sort of report on the fluctuations in performance against national goals as well as to compare New York against Chicago and Dallas.

I'm pleased to report that all three of those principles took place and were part of a launch that happened to the day 90 days after the President's call. So by September, I believe it was, 21st or 22nd, this site went live. The implication, I believe, Mr. Chairman, is that, as we look to these customer-facing experiences, we can take a lot of lessons learned from that storyline and apply them, as we are, in conversations across the various agencies.

One final observation, Mr. Chairman. Now that the Directive has been put in place, we have moved from a series of pilot initiatives, which has been largely the demarcation of where we were for the last many months, to one where we will have now a more structured management coordinated approach to these issues. So those kinds of early wins will now be part of the dialog across the agencies.

Senator WARNER. Vivek, do you want to add anything? I have a couple followup questions.

Mr. KUNDRA. Yes, sir, I do. The other thing about the launch of the U.S. CIS solution that's different is that it was part of a trajectory that was supposed to go live within a 5-year timeframe and what this shows is the classical approach to technology investments across the Federal Government where everybody believes you've got to have this big bang approach. Five years later, you'll have some type of innovation.

One of the things that Aneesh and I did, working with the U.S. CIS, was to sit down and disaggregate the complexities and talk about how we create value today for the people that need to know where their applications are in the process, Number 1, and, Number 2, how we make sure by putting up this public-facing dashboard we create the right pressures for U.S. CIS to actually perform and improve the processing times. Also, we engage the public in terms of looking at the Dashboard itself and the interface to improve it rather than just doing it with government employees in Washington who imagine what people may want. So we actually engage the public in the development of the solution itself.

Senator WARNER. Well, a couple of questions. One, and let me get them all so you can then respond, either one of you, one, I thought it was pretty cool, this notion of the competition between offices. You know, if one office is doing better than the others and if that was launched in September, you know, we're now a few months later, are we seeing any improvement by the laggards? Number 1.

Second is when you first shared this with me, I thought it was a pretty interesting win or progress being made, I don't want to overstate it, progress being made. Two, why don't more folks know about it because I still got a lot of folks knocking on my Senate office door saying, you know, we're in the midst of kind of this opaque area in the Immigration Service?

Three, how do you roll out that to make sure it's aware and, for example, have you shared this with the Immigration caseworkers and with every Member of Congress?

Mr. CHOPRA. Great questions, all three. Maybe I can take the first stab and Vivek can go there.

We have essentially played this strategy with the VA, and Roger Baker can speak a little bit about that, with our processing capabilities on the G.I. Bill across the four centers that are managing that activity and we're seeing tremendous improvements in productivity in just the time in which we've launched that initiative where we're a little bit more active in the near term seeing the results.

I have not spoken to the U.S. CIS on the actual wait times since the feedback has come out in October, but my presumption is that we're seeing similar, but that same strategy of——

Senator WARNER. You will get back, and——

Mr. CHOPRA. Absolutely.

Senator WARNER [continuing]. I know it's still early, but if we're——

Mr. CHOPRA. No, no, no.

Senator WARNER [continuing]. Three months in now,——

Mr. CHOPRA. No. We will absolutely——

Senator WARNER [continuing]. We will compare that wait time, Dallas versus New York versus Chicago, but I'd like to see, now that this information is out into the public, have the laggard offices picked up that, has that seen any improvement?

Mr. CHOPRA. Absolutely. We will get that to you. But I am confident that this same strategy of having the offices see each other's productivity and drive to performance, that model has worked and I'm pleased to report that.

The second aspect about telling folks about it, we had a press conference with Secretary Napolitano to announce this to the key stakeholders in September and there was a consistent outreach effort by U.S. CIS to stakeholder groups. More can be done and, given your feedback, more will be done.

Third, I believe we did a briefing for Hill staffers on how we can improve feedback from them about this system as well as awareness. If that has—perhaps we could do a round two of that Hill briefing and I'll convey that message to the U.S. CIS.

Vivek, any feedback?

Mr. KUNDRA. The other thing to add is that the performance improvements, if you look at internally, also, what the U.S. CIS is doing, is looking at resource allocation against the backlogs or the processing times.

We'll be happy to come back and get you details on what's happening as far as reallocating resources where you have the longest wait times. It's also giving us business intelligence in terms of the

operations of U.S. CIS beyond just making the processing times transparent.

Senator WARNER. So what's next in the queue? If you've got CIS, and I know you've also received some attention on the G.I. Bill, but are there other areas that we can expect to see soon?

Mr. CHOPRA. The answer is yes. I don't know if we're seeing such more right now.

Mr. KUNDRA. We're working across the board. The committee that Aneesh and I jointly launched, is going through a number of initiatives where we can look at performance improvements.

For example, in January, the IRS and the Department of Education are going to be launching a new improved student aid application. It used to be that to fill out the student aid application, individuals would have to input so much data that is repetitive data that the IRS already had. And with the new approach the two of them got together and now an individual will get their own tax data with one click, and they're going to be eliminating over 21 web screens that they had to fill out. It was more complicated to fill out the student aid application than the 1040 form.

So there are a number of innovations that we're looking at in terms of information-sharing, and optimizing how we use technology, whether it has to do with education or whether we're looking at U.S. CIS.

Senator WARNER. All right. Well, so that was a softball question. Now we're going to go to the other side. You know, let's go to where perhaps we don't have quite as good of information reporting.

I mean, clearly, the first round of reporting on the Recovery Act, to say the least, caused some consternation. I didn't realize, for example, that Virginia had a 12th Congressional District. To my knowledge, it still doesn't. You know, how do we make sure we do a better job on the Recovery Act reporting?

I go back again to some of the overlap. I mean, I appreciate the fact that you've each mentioned a couple of new sites and new initiatives and I commend the OMB for the Open Government, but at some point, do we end up, we being our customers and our citizens, more confused because again we're just creating so many more sites and we may have a kind of technology cognizente who follows each of these, but for the average citizen or, for the matter, the average member, how do we have a little more clarity here? How do we not have a repeat of the kind of mistakes made in the first round of Recovery reporting?

I go back again to my comments on the procurement side with usaspending.gov and Federal Procurement Data Systems both putting out different—you know, supposedly the same data but because it's different timing, different formats, you know, you leave Congress and the American citizens with a very confused picture. How do you rectify that?

So take either the duplication, the Recovery Act, and then specifically in terms of procurement.

Mr. CHOPRA. Let me take the broad themes and then I'll defer to Vivek on the areas that he has responsibility for.

This is the reason, Mr. Chairman, why we've focused on the machine-readable formats topic because the notion that people have to know a government website or to think about visiting a govern-

ment website is, we believe, the wrong posture. We hope that these key sources of data, by making them available in machine-readable format, will enable a whole panoply of sites that will be custom-tailored to meet your needs.

You might be pleased to know that, while the overall reporting that you referenced might have been a challenge, the American Academy of Sciences launched a portal focusing on the science recovery investments that's very easy and accessible so that researchers can now collaborate and share on what other studies are being done that are in their general sphere so they can promote more collaboration.

Those capabilities are born because those external sites can consume the raw information and then present that in a more customer-friendly way to meet the needs of that constituency.

I would also point out that's why we're pleased that the , we consider to be the newspaper of the Federal Government, is now available in machine-readable format.

The notion that we need to have a really robust and fancy-looking .gov site is the wrong question. What we want to do is actually make those component parts available so that if you happen to be interested in the healthcare set of issues, that you can have compiled for you by some third party who's willing to do that work the quick and easy kind of news clipping service for what health-related clips are in the that meet your needs.

So, philosophically, our focus is mostly on producing the data out and encouraging those to consume it and then create this broader ecosystem so that the American people can get that information in ways that they may not know originally came out of a website in Washington because, frankly, a very, very small number of Americans know to visit those particular sites..

Now your point about the data quality is why in the Directive we put a very explicit statement about data quality and I think that's the right place to hand it off to Vivek.

Mr. KUNDRA. Sure. So before I jump into the data quality itself, you're absolutely right when you talk about the explosion of the number of websites across the Federal Government and that's one of the areas we're looking at in terms of rationalizing and moving much more toward a service-centric approach instead of just webifying our brick and mortar institutions and creating yet another website.

There are over 24,000 websites across the Federal Government. That's one of the reasons there is usa.gov which is supposed to serve as the single point of entry, a platform, for the American people to engage online with their government and the strategy that we're using is to move toward a service-oriented architecture so we get more and more of the services in that one place.

On data quality, that's a persistent problem and there's a technology component of it and then there's a business side of it. From a business perspective, the procurement community has spent a decade in terms of defining what a contract means, defining what it means as far as a data element, so it's consistent across the Federal Government community.

If you look at the grants community, for example, that hasn't happened. There isn't consistency in terms of definitions across the

board and part of what's happening in these communities is, as they move forward in defining their requirements and defining the data definitions, then comes in the technology.

In the example of FPDS, which is the Procurement Data System and USA Spending, FPDS is limited to tracking only the procurement expenditures. So you're looking at the $500+ billion that we spend on contracting—whereas USA Spending is responsible for tracking the entire expenditures of the U.S. Government, from grants to contracts to loans, across the board—part of the challenge that we're seeing is that because you've got data available now in its raw format, you can slice and dice it in many, many different ways and that's one of the reasons Aneesh referred to the Directive itself.

The OMB Directive directs every single agency to ensure they have an accountable official for data quality because it's not enough to just put the data out there, we need to make sure that the data is timely, it's comprehensive, and that it's reliable. As we look at USA Spending right now, we're in the process of rationalizing the information between USA Spending and what's happening on the FPDS data base among the multitude of other data bases that power various communities, whether they be grants communities or they're the procurement community.

Senator WARNER. I've been joined by my colleague Senator Whitehouse. I'm going to ask one more question, then I'll turn it over.

I do think there is still—I get the fact that we're going to try to make this data available in a machine- readable form so people can slice and dice as they want. I do think, though, as long as we have these literally now thousands of websites, we do need some kind of more user- friendly front-end so that we don't have the confusion we saw with USA Spends and FPDS in terms of, you know, I know they're different measurements and I don't know how we get there.

I know you're working through that. The sooner the better, though, because we can't have a repeat, and I know this is a whole different set of problems with the first round on Recovery Act reporting, but I can assure you with questions about the Recovery Act, particularly from some of our colleagues on the other side, we can't have another round of imaginary congressional districts appearing on the next round of reporting.

I'm going to ask one more last question, then I'll turn it to Senator Whitehouse, and particularly as there's an enormous amount of interest on the procurement issues, and this goes to Vivek in terms of the management within the overall Federal Government of IT projects.

We're anxious on the second panel to hear from Mr. Baker and we're anxious to hear from our colleague from Georgia in terms of, you know, how we get an overall management structure for IT system procurement and project management. I think it's very important and I think it's great that we can celebrate the VA's efforts.

I want to make sure we end up with a system, and I don't know—you know, we don't need just a few brave CIOs out there. We've got to have this with a system-wide approach and this notion that you're opening up to the public and more of an open system

in terms of how the Federal Government does its IT procurement, I actually commend.

But let's go back to the overall governing structure. Is the CIO Council and leaving the agencies with the IT procurement process with just advice from OMB and advice from the CIO Council the right system, Number 1, and, Number 2, how do we do a better job of leveraging our purchasing power within the IT sector so we're getting the best value for the dollar, and, Number 3, how do we put in place tripwires on IT projects that are running behind?

And my sense from my exposure from the Governor's side is that the common practice, which is to—and we'll come to this more with Mr. Baker, where the government contracts with an IT firm to do a relatively narrow scope project. You have an original contract and that contract constantly expands and that the average cost of an original contract doubles or triples by the time because there's no kind of oversight over the—as the government adds more bells and whistles to their IT requests, obviously the private sector contractor's happy to agree to that, but you end up with what appears on the front end to be a small contract ballooning into a large contract. We're not sure if we're really getting value for the dollar.

How do you put better oversight there? So those three questions and then I'll turn to Senator Whitehouse.

Mr. KUNDRA. Sure. So a couple things. One, on the approach to IT management, the challenge for far too long has been that the CIOs, unfortunately, in a lot of agencies were not directly communicating well with the business leaders, and business owners.

If you look at what happened at the Census Bureau in when a handheld was developed for their 2010 Census, yet we've reverted back to a paperless project, part of the problem was the CIO wasn't even in the conversations when they're deliberating and making those decisions.

And if you look at the Cohen Act, under statute, the CIO is ultimately responsible at the agency level to make sure that they're driving the investments and management across the agency itself.

The Federal CIO Council——

Senator WARNER. Let me just interrupt you for a moment. Senator Whitehouse has got another session coming up. I do want to hear the balance of your answer and I want to get to the second panel, but I really appreciate this whole initiative was actually Senator Whitehouse's idea to start this Performance Review Panel. I appreciate him being here on a very busy day.

So please.

Senator WHITEHOUSE. I'm very happy to be here, Senator Warner, and I'm sorry that I'm on two committees that are actually marking up legislation and require quorums. So I've got anxious chairmen needing me to appear in order that their legislation can move forward. So I'm delighted to take a few minutes, though.

In terms of general overview, I would, first of all, take out health IT for a moment because I think that's sort of a beast unto itself that requires its own attention.

On the IT side, if you'd indulge me in sort of carving the question into the how effectively the government uses information technology to support its customer relations versus how effectively government uses information technology to improve and make more ef-

ficient back office administration, and then the third question, which I see as lesser than those two, somewhat peripheral, how it participates as a purchaser in the IT market., I'd love to hear your views on where you think the best practices are in the country.

Are there industries that are particularly adept that have taken these different areas to a very high level of expertise? And measured against that benchmark, where does government stand, and are there better or worse areas of government that stand out as being comparable to, competitive with, better than the private sector or lagging behind, kind of just a private sector-government sector benchmarking across those areas?

Mr. CHOPRA.

Mr. CHOPRA. Well, thank you, Senator. Great set of questions. I might take an angle on this and then I'll pass the bulk of it to my colleague.

On the issue of customer service, I think the Open Government Directive has opened the door for a healthier dialog about how we engage the American people in the work of the Administration not only in policymaking but in the execution and in the delivery of services. I believe our greater attention to this issue will strengthen an area that I believe has been a lesser-performing asset.

In the area of best practices, I happen to be a strong believer in customer experience design as a field of art that is a critical component of large-scale IT projects. We do a fairly exhaustive list of requirements in the back office for these multibillion dollar IT projects, but I believe we do a relatively poor job of understanding customer need, not just in the narrow sense of what the computer screen should look like when we move from green screen to a more modern platform but actually what is the citizen's experience, almost an anthropological question.

Senator WHITEHOUSE. Mm-hmm.

Mr. CHOPRA. I turn to Proctor and Gamble's service delivery and innovation capability as one of my favorites from a best practices standpoint. I've been honored to have Chief Technology Officer Bruce Brown as one of our advisors to think through this notion of customer experience design.

I believe that, through the Open Government Initiative, as we now have very explicit milestones with the agencies on putting together plans and engaging the American people, we will surface more opportunities. This is the distinction, Senator Whitehouse, between what I would consider to be the back office world view of IT and the front office new product development opportunities that IT can enable.

If you look across the globe, it was techies in Finland that had commissioned a study on customer experience design, a government agency, I believe it was in Finland, that had commissioned a U.S. best practices study on how did the Enterprise Rental Car improve the customer experience, how did Bank of America come up with Keep the Change Program improve the customer experience, what are the lessons learned. All of those ideas are powered by technology, but you wouldn't normally think of them as a CIO activity.

That's why, as part of this Directive, having a senior agency official reporting to the Cabinet Secretary focusing on these issues in

Open Government will create a new locus of thinking around that customer question.

Mr. KUNDRA. And on the procurement space, one of the biggest problems with the Federal Government is that we don't act like the $76 billion enterprise that spends money on information technology. We spend over $76 billion annually.

Now there are pockets of success. For example, there's a Smart Buy Program at GSA which took, for example, DSSA from an antivirus software program that was listed for $40 to $2 because they were able to pull an aggregate demand and that was a purchase for over five million licenses that they were looking at.

So part of what we're trying to do is figure out how do we aggregate more and more demand and using the Smart Buy approach and, second, how do we lower the threshold and make it a lot easier for agencies to actually procure technology that's enterprise in nature? That's one of the reasons the Administration launched apps.gov, so that when agencies are procuring applications online, we can actually monitor demand, aggregate it, and make sure that we're saving money instead of just buying technology for technology's sake.

And in terms of the back office in government operations, one of the big challenges is, if you think about the public sector itself, it used to be that people would go to work to get access to the greatest technology. Now it's the opposite. Most of us have better technology at home than we do when we come to the office to work. Part of what we're trying to do is figure out how do we introduce consumer technologies within the public sector so we're not reinventing processes, we're not spending billions of dollars recreating and innovating in space that has already been innovated on and there's significant, significant savings because of the pressures that are applied in the consumer space.

Senator WHITEHOUSE. Could I, because my time has expired, could I ask as a question for the record for you to get back to us in writing on both the extent to which you think that there could be savings in the $76 billion acquisition portfolio that you mentioned, Mr. Kundra, and to the extent you're capable of putting a number to that, fine, and to the extent that you need to qualify that number with some level of certainty or uncertainty, but I would like whatever your statement is as to where you think that number could be if we were operating optimally and ditto looking at it not as an IT procurement question but as an IT efficiency gains question, what are the larger structural budgetary gains that you see as possible or within the realm of reason?

I invite you to couch your answer in whatever way you are comfortable and if you need to couch it in rather uncertain terms because that's just the way it is, that's fine, too, but I would like to try to arrive at a number, however qualified, as to what potential budgetary impact, positive budgetary impact there could be from optimal IT investment utilization.

Thank you.

Mr. CHOPRA. Thank you for the questions.

Senator WARNER. Thank you, Senator Whitehouse. Briefly, Vivek, because we want to get to the second panel, if you could just again comment or finish your answer on do we have the right CIO

management structure in terms of being able to aggregate purchasing power in place or do you need something that strengthens the CIO Council so that you don't have a rogue agency off here, going off purchasing on its own?

And then, quickly as well, so we can get to the second panel, the issue of the kinds of problems we have in IT contracting where you come in with a small price, a low- risk price, and then you end up with three or four X because there's no management of all the add-ons, and how, if we don't have quality CIOs like Mr. Baker of Veterans Affairs, how do we make sure that process is better managed and that there is some look-back and accountability in terms of CIOs, not simply adding on to these projects?

Mr. KUNDRA. On the first question, I think it's less about the structure and more about the leadership. If you look at what the President has done by appointing his CIO and CTO, he's made it clear how important technology is to this Administration and he's leading the way.

Across the board, what's happening is that agencies central to this Administration's agenda are leveraging the power of technology on how we reform government, how we drive savings, and, more importantly, how we deliver better quality services to the American people.

The challenge for CIOs for far too long has been that they haven't been engaged and when IT projects fail, it's either when you have very high level of engagement from the business community but no technology engagement or very high level of engagement from the technology community and no engagement from the business side.

And one of the things we're doing with the CIO Council, too, is sharing these best practices and the first step was launching the IT Dashboard. Part of the reason we did that was to unlock and lift the veil on how these decisions are being made.

To your second question around contracting and what we could do in that space, the challenge there is some of these contracts where you have a billion dollars for one milestone makes no sense. What we need to start doing is breaking down these contracts into smaller chunks and moving more toward fixed price contracts so that we clearly define requirements, clearly define scope, and hold vendors accountable to make sure that they are delivering. When they're not delivering, we need to make sure that we're divesting from technology initiatives that don't produce dividends.

Senator WARNER. And I would hope that might include, and I know we've had some offline conversations on this, some process where there has to be perhaps a higher hurdle for that internal government CIO to go back and further expand the original contract, some oversight in that process, so a look-back in that process, so again we don't end up with what has become the norm, unfortunately, of contract that starts with X price and ends up three or four or five X at the end of the day with add-ons that may or may not have been necessary or, if we better scope the project on the front end and hold that CIO accountable for the appropriate scoping in the first place in terms of his or her ultimate performance review, that would be something we'd like to look at, as well.

I want to thank the panel. I have one other comment, Senator Whitehouse. I did not get a chance to see it, but my understanding is, in light of the Open Government announcement earlier this week, that both Mr. Chopra and Mr. Kundra were the subjects of Jon Stewart last night. I'm anxious to see the video. There was some great expose about the Open Government boys here and I'm sorry we don't have that clip, but I hope to have it, and I'm sure we'll get a chance to share it with you.

Senator WHITEHOUSE. Without objection, perhaps we could make it a matter of record.

[Laughter.]

Senator WHITEHOUSE. I seem to be hearing an objection, so hold that request.

Senator WARNER. Thank you, Senator Whitehouse, for being here. Thank you, both, gentlemen.

Mr. CHOPRA. Thank you very much.

Mr. KUNDRA. Thank you.

Mr. CHOPRA. Our pleasure.

Senator WARNER. We'll now, in moving along, bring up the second panel, and we're now going to move from kind of the macro level down to two specific wins at the state level and a real-time/real-life example of the kind of better contract management that I think we'd like to see in the Federal Government. Both our witnesses have been at the front-line of government reform, particularly in the IT area.

First, we're going to hear from Mr. Roger Baker, who we've made a number of comments about already, the Assistant Secretary of Information Technology and Chief Information Officer at the Department of Veterans Affairs.

Mr. Baker manages over 6,500 IT professionals and oversees an IT budget of $2.5 billion. We're going to particularly—one of the things Mr. Baker has done recently is he recently put a hold on 45 IT contracts within VA, something that was, I think, perhaps shocked the community a bit and actually eliminated some of those contracts because they were not being as well managed and perhaps went to some of this contract growth that we want to hear back from.

And then we'll hear from Mr. Brad Douglas, the Commissioner of Administrative Services for the State of Georgia. Since 2006, Mr. Douglas has been leading an effort to transform state operations with new procurement processes, technology and skills, and we've asked him to share the results of his lessons from his work.

Mr. Douglas brings not only his experience working in Governor Perdue's Administration but also major experience in the private sector.

So Mr. Baker and then Mr. Douglas.

Senator WHITEHOUSE. If I might before you speak, I believe both Senator Warner and I have read your testimony. So to recite it back to us is not necessary. If you could focus on the high points and we can embark on a discussion, that would be helpful.

Mr. BAKER. I will adhere to that.

STATEMENT OF THE HONORABLE ROGER W. BAKER, ASSISTANT SECRETARY FOR INFORMATION AND TECHNOLOGY AND CHIEF INFORMATION OFFICER, U.S. DEPARTMENT OF VETERANS AFFAIRS

Mr. BAKER. So thank you for inviting me, Chairman Warner, Senator Whitehouse. I request that the full testimony be accepted for the record.

Mr. Chairman, as a fellow Virginian, it's a pleasure to be invited to testify about one of my real passions which is effectively managing government IT technology, and you mentioned that we might be a little geeky in this, so we seem to have that as a passion.

In the past 6 months, VA Office of Information Technology has made substantial progress toward becoming a well-managed IT organization. We've established strong customer service focus, introduced program management accountability system or PMAS, as you'll hear me refer to it, paused 45 of our most problematic projects, and successfully restarted 30 of them. I think that's important.

We've prioritized over a thousand spend items within IT and made hard choices with our customers about which items can be accomplished and which can't. We've begun tying together planning, budgeting, spending, all the way down to quantifiable results for every dollar we spend, and we will know who's responsible for producing those results on each of those dollars, and we've been tracking and reporting the operational metrics of our field organization.

There are three causal factors to this progress. The first is consolidation of all IT resources into a single organization under the CIO. The second is a senior management team from Secretary Shinseki on down, who understands the importance of technology to organizational effectiveness. The third is attracting a CIO with an understanding and an expectation level of what can be achieved in an effective, well-managed IT organization.

Because VA is unique among Federal departments at having all IT spending and staff under the CIO, it's effectively a pilot program. Over the next several years, our efforts at VA will demonstrate whether consolidation of IT resources under a single CIO at a Federal department can have a substantial positive impact. I believe we will succeed and VA's consolidated IT budget and management support we receive are what attracted me to this job and convinced me we can substantially improve the results of VA's IT investments, despite the challenges of the bureaucracy.

I'll spend just a couple minutes describing three of the program management techniques we've introduced. First is the Program Management Accountability System. As Albert Einstein once said, "The definition of insanity is doing the same thing over and over again and expecting different results."

So the Program Management Accountability System ensures substantial change in failing projects. We established PMAS in June of this year and followed up by pausing 45 of our most problematic development projects in July, following the release of the IT Dashboard by the White House. Although pausing 45 projects garnered most of the popular press attention, the greatest satisfaction has been in seeing many of those projects restart with an increased

probability of success. After all, the real goal of the Program Management Accountability System isn't to stop projects, it's to reliably complete the development of the new systems our customers require.

To date, the greatest challenge with the Program Management Accountability System has been working through all of the program contractual issues involved with stopping projects. Although it's counterintuitive to me, it turns out to be much harder to stop an ongoing project than to start a new one.

Despite hard work by many people in our Development and Acquisition Organizations, we still have work to do to finish thoroughly stopping the 12 projects in the original 45 that we have decided will not continue. However, I'm confident that we will achieve our original goal of having all VA IT projects managed under PMAS within 1 year.

Second, and I believe even more transformative in VA, is prioritization. In implementing PMAS, we quickly found that many of the projects failed to meet expectations because they were underresourced and they started out destined to fail.

To address the issue, we recently ranked all of our IT spend items, probably more than a thousand at this point, from most to least important. We obtained buy-in for the decisions and have decided to cut spending on those projects that were not above the priority line, as well. So based on that, last week I ordered the stoppage of any ongoing spending item that was not above the cut line on the priority list.

I expect that will generate substantial discussion inside the agency as they understand what prioritization really means.

Third is operational metrics. In my experience, well-managed IT organizations are heavily oriented toward tracking their operational metrics. The real scorecard items in IT are system availability, system response, customer service volumes, and customer service response.

By focusing on operational metrics, IT organization quickly determines how well it's serving its customers, where it's weak, what it needs to do to provide better services.

Now our IT Operations staff, over 6,000 people at hospitals, regional offices, and cemeteries around the country, does a great job of ensuring that critical systems are up and available to our customers at VHA, VBA, and NCA.

Just one thing I want to point out from my testimony for folks to hear. As an example, the Vista Electronic Health Record System that runs a 153 hospitals around the country is up in excess of 99.95 percent of the time. That's an average that rivals anything in the private sector for a system that wasn't designed for 100 percent availability. Those folks do a very, very good job and I'm very proud of the work that they do.

Mr. Chairman, based on your private sector experience, each of these items may seem obvious and I certainly agree, but without a consolidated IT budget, they weren't happening at VA and they don't happen in many other Federal organizations.

In closing, I'd like to thank you again for your continued support, the opportunity to testify before this committee on the important work we're undertaking.

Our unwavering goal is achieving Secretary Shinseki's and President Obama's vision of a 21st Century department committed to serving those who have selflessly served our nation.

I'll take any questions you'd like to ask. Thank you.

[The prepared statement of Mr. Baker follows:]

STATEMENT OF
THE HONORABLE ROGER W. BAKER
ASSISTANT SECRETARY FOR INFORMATION AND TECHNOLOGY
U.S. DEPARTMENT OF VETERANS AFFAIRS
BEFORE THE
SENATE COMMITTEE ON BUDGET
UNITED STATES SENATE
DECEMBER 10, 2009

Thank you Chairman Warner, and members of the Committee. I request that my full testimony be accepted for the record.

Mr. Chairman, as a fellow Virginian, it is quite a pleasure to be invited to testify in front of this committee about one of my passions; effectively managing federal government Information Technology (IT) investments. This is the second time I have served as a CIO at a federal department, the first from 1998 to 2001 as a career executive at the Department of Commerce. For the eight years between the government executive positions, I spent time as both a CIO and Chief Executive Officer (CEO) at private sector companies in Virginia.

In the last six months the VA Office of Information and Technology (OI&T) has made substantial progress towards becoming a well managed, effective IT organization. Most notably, we have:

- Established a customer service focus and strong, positive relationships with our internal customers.
- Introduced the Program Management Accountability System (PMAS), which ensures close management of our systems development projects.

- Paused 45 of our most problematic projects, and successfully reformed 30 of them under the PMAS system.
- Prioritized over 1,000 spend items, for example projects, purchases, or contracts within IT, making hard choices with our customers about which items can be accomplished, and which cannot.
- Begun tying together planning, budgeting, and spending to quantifiable results. Each IT item where taxpayer dollars are spent will have an individual responsible for ensuring results are delivered.
- Begun tracking and reporting the operational metrics of our field organization. This action will ensure VA is paying close attention to the aspects of our business that our customers most depend on.

There are three causal factors at work that are enabling our rapid progress.

First is the consolidation of all IT resources into a single organization under the CIO. Congress was instrumental in helping VA achieve this organizational structure. It is unique to have all of the IT spending and staff under the CIO for a Department level federal government entity. The consolidated authority and responsibility of this organization are key in effecting the changes VA is making.

Second is a senior management team, from Secretary Shinseki on down, that understands the importance of technology to organizational effectiveness. Secretary Shinseki has set forth a vision of a 21st Century VA; a VA transformed by technology into a Veteran-centric service organization that is forward looking and results driven. Achieving this vision

requires VA to have an IT organization that can reliably deliver and operate the technology needed to effect that change.

Third is hiring a CIO with an understanding and expectation level of what can be achieved in an effective, well-managed IT organization. The mission, scale, and challenges of federal departments are sufficient to attract technology executives who want to make a difference. Unfortunately, the bureaucracy, particularly the ineffective organization structure, human resources processes, and acquisition processes, along with the compensation levels, are aspects of government that drive away the level of talent we most need to attract.

Over the last six months, the Office of Information and Technology (OI&T) identified and is implementing well over 100 management and operational improvements. There are three of those items that are fundamental to creating a well-run IT organization: program management accountability, prioritization, and operational metrics.

PMAS: The primary purpose of the VA IT consolidation in 2007 was to improve the results of investments in information technology. Recent program failures have pointed out the need to examine the system development approach. Analysis of all ongoing IT projects showed that many programs are significantly behind schedule and appreciably over initial cost estimates.

The Program Management Accountability System (PMAS) was established within OI&T by Secretary Shinseki in June of 2009. In July, in conjunction with the roll-out

of the IT Dashboard, VA announced the temporary pause of 45 ongoing development projects. The intent of PMAS is to improve the rate of success of VA's IT projects by ensuring that IT program managers have access to the resources necessary, and by closely managing the project to near term customer delivery milestones.

PMAS requires the use of incremental development techniques for IT projects and programs, with delivery of new functionality to an internal customer (tested and accepted by the customer) at least every six months. PMAS also requires management acceptance of an investment plan, and requires that a program or project be paused and re-evaluated at the point where it has missed three customer delivery milestones.

PMAS lays out clear expectations for our Program Managers. They will be held to planned costs and schedules. To be approved for investment under PMAS, a program or project must have:

1. An identified customer sponsor.
2. A program plan that incrementally delivers a functional product to the intended customer at least every six months.
3. Documented, agreed to requirements for initial milestones.
4. A clear plan for necessary program disciplines.
5. Clear access to necessary program resources.
6. Customer, program, and vendor acceptance of PMAS

management requirements.

7. Success criteria established and accepted jointly between Customer, IT, and Vendors.

8. An established Integrated Project Team (IPT) made up of all stakeholders and service providers involved with a project.

Programs will be paused on the third missed customer delivery milestone. Once paused, substantial changes must be made before the program can restart. These include:

1. Re-assessment of the need for the program
2. Re-assessment of the program approach
3. Re-assessment of the program design
4. A new program manager
5. Substantial changes in the assigned government staff
6. Re-competition of all service contracts
7. Approval of a new program plan by the Assistant Secretary for Information and Technology

Although pausing 45 of our most troubled projects garnered most of the attention of the popular press, my greatest satisfaction has been in seeing many of those projects resume with an increased probability of success. As CIO, I can assure you that through this new policy shift, PMAS will: (1) re-balance requirements with available staffing, (2) reduce technical risk through incremental product delivery and use of Integrated Project Teams (IPT), (3) assure business sponsor engagement throughout the System Development Life

Cycle, and (4) allow VA to identify troubled projects earlier so tax dollars are not wasted on programs that are not yielding results.

Prioritization: In implementing PMAS, we quickly identified an issue that caused many projects to fail at VA: VA was committing to too many IT development projects and not prioritizing projects and allocating resources accordingly. Many projects failed to meet expectations because they were under-resourced, and destined to fail from the start. To address this issue, VA recently ranked all of our IT spend items, approximately 1,000 line items including projects and recurring costs such as leases and licenses, from most to least important from the customer's point of view. VA determined how many of those items can be successfully completed with our current resources, and most importantly determined which items could not be completed. We obtained buy-in for these decisions from our internal customers throughout the process. VA *will* make hard decisions during FY2010 based on this prioritization. For the customer, this means fully resourcing the most important projects and not resourcing lower priority items.

Operational Metrics: In my experience, well managed IT organizations are heavily oriented towards tracking and reporting their operational metrics. These are the real "score-card" items in IT: system availability, system response, customer service volumes, and customer response. By focusing on operational metrics, an IT organization quickly determines how well it is serving its customers, where it is weak, and what it needs to do to provide better services. Today, VA tracks the IT operational metrics that covers about 25 percent of our existing infrastructure. VA's IT operations do a good job for our customers. This includes keeping VistA, our Electronic Health Record system, available well over

99.95 percent of the time nationally. Tracking the operational metrics has also helped us identify long-term strategies to improve the system availability of VistA and other key VA systems, and to obtain concurrence in those strategies.

Acquisition Challenges and Solutions: Key among all of the PMAS implementation steps is the principle of collaboration. Information Technology is a critical need for all parts of VA. This need requires enterprise-wide collaboration to effectively reach solutions for the entire organization. Throughout OI&T, Project Managers are establishing Integrated Project Teams IPTs to help them complete their project successfully. An IPT is a cross-disciplinary team focused on the collaboration necessary to deliver an IT project, which includes empowered representatives from varying organizations with specialized expertise. Many of the representatives are the end users of the systems being developed and will have a direct stake in the success of projects. Teams not only include hardware and software experts, but acquisitions and human resource specialists, business owners, general counsel, dependent product owners, and any others whose input will be needed at some point in the development lifecycle. IPT members work collectively to establish a detailed project plan. They are expected to meet on a regular basis, and become collectively responsible for the delivery of the product within the project plan deadlines. Establishing a successful IPT is a critical success factor in determining whether a project can be restarted after it has been paused under PMAS.

IPTs have proven to be critical in solving our IT acquisition issues. The acquisitions process has proven lengthy and unwieldy. The separation of project managers and acquisition specialists prevented any strategic approach to acquisitions. Vendor under-performance

plagued some of our best-known projects, with project managers uncertain of courses of action available to them.

By bringing key project decision makers together, acquisition and legal professionals are involved throughout the development lifecycle beginning with developing the project schedule. Strategic insights into a project's acquisition needs are identified early, allowing the Office of Acquisition, Logistics, and Construction (OALC) to plan appropriate resources and review timelines. OALC took an additional strategic step toward allotting appropriate resources by establishing a dedicated acquisition office to support OI&T program planning and execution. OI&T, OALC, and the Office of the General Counsel are working together to implement joint Program Management Reviews, allowing early insight into contract performance and facilitating immediate or preemptive course correction. These steps, while preliminary, are providing the building blocks for foundational shifts in the way VA manages IT acquisition.

In closing, I would like to thank you again for your continued support and the opportunity to testify before this Committee on the important work we are undertaking to improve VA's IT project development; and to demonstrate our unwavering goal in achieving both Secretary Shinseki and President Obama's vision of a 21st century Department committed to serving those who have selflessly served our Nation. I would now like to address any questions you might have.

NOTE: Somewhere, please include language echoing your press release about using the IT Dashboard to identify troubled IT projects.

Senator WHITEHOUSE. Director Baker, a question for the record and that is what information you can give this committee about what you think the savings potential is of the best practices that you are engaged in. If you could provide us that number, both within VA and as again couched however carefully you want to in terms of recognizing that there's going to be some uncertainty around what you say, if it were applied governmentwide at the level of performance that you appear to be demonstrating in VA, what sort of orders of magnitude we're talking about.

Mr. BAKER. We'll do that.

Senator WHITEHOUSE. The other question has to do with less the financial side than the performance side of the VA program, particularly the Electronic Health Records Program.

VA has really distinguished itself, I think, as the early leader in this area. It has had a closed system and so has been able to capture the value of the investment in information technology which is different than the general healthcare market where the hospital or the practice has to make the investment in information technology, but it doesn't capture the value of it. The value of it goes to the payers, the insurance companies, to the Federal Government, to other people.

So we have sort of a systemic failure in terms of the risk/reward loop for investment in health IT in the general market, but the VA has not had that problem and has taken advantage of that to be very effective.

The two concerns that I've heard on numerous occasions, and again measured against what is a very distinguished track record, one is that it got too bureaucratic and too centralized and local changes to the programs became delayed so much through the Central Information Office manager that it sort of plugged up the system and made it far less robust and vibrant than it was when, at the more local and hospital level, people were experimenting with program changes and therefore developing and working their way through glitches and that that was accelerating the program forward and that the centralization of that actually sort of compressed that energy and pushed it back and has resulted in lowered rates of improvement.

The second has to do with the initiatives to reach the system outside of its current boundaries so that, for instance, a veteran who is hit by a bus in Providence and is rushed to the Rhode Island Hospital Emergency Room, at the Rhode Island Hospital Emergency Room, they have a link and they can dial up the electronic health record for that veteran and it's no longer constrained. It follows the veteran wherever they go rather than having its line of demarcation be the bureaucratic structure of the Veterans Administration.

I know there are some pilot projects on that. That seems to be a really high potential value return area and I'd like to hear your assessment of how energetically those pilots are being pursued and how rapidly we can see the value of the Electronic Health Record VA Program expanded to include the full medical reach of the veteran and not just his contacts or her contacts with the VA bureaucracy.

Mr. BAKER. Senator, thank you. I'll answer both those questions, but I'm so excited about the answer to the second one, I'd like to take that one first.

The President's vision of a virtual lifetime electronic record really goes exactly to the question you're asking. When we looked at the President's direction, we took the approach of let's also look at what he didn't say. He did not say for some veterans, he did not say for just inside the government. He said I want this information available on service members and veterans for use throughout their lifetime, and in our view that includes the private sector.

We have already demonstrated that work. We have a pilot going with Kaiser Permanente in San Diego. We have exchanged patients and exchanged information on those patients in a live setting. Interestingly, with the first two patients we did that with, on both sides, the doctors saw information from the other record that was not present in the record at the place they were being seen, information about drug allergies and other prescriptions that were important to the care that that veteran received. So we've already seen the benefit of that.

In January, we will be live with a pilot with Kaiser Permanente. We have solicited 1,500 veterans to opt into that pilot so that they can be seen at a new place and all their information is available. All this is being done through a national standard. Most important to us is we are working with HHS and DOD and other organizations to develop a national standard, the Nationwide Health Information Network, that will allow us to build, to exchange with Kaiser Permanente, but then when other organizations, like Humana and others, come to that standard, we will automatically be exchanging information with them on the veterans.

Again, our focus is on great care for veterans wherever they go. We believe they get it when they come to the VA. We know they're also seen at lots of other places and the President, when he laid out the vision of a virtual lifetime electronic record, it was for all service members, all veterans, throughout their lifetime wherever they're seen.

This is a very exciting program and we are—it is absolutely one of the few top priorities in the Secretary's view.

Senator WHITEHOUSE. I'm delighted to hear you say that. I'm delighted to see the animation with which you say it and the sooner you can get it to Providence where we have a very energetic Rhode Island Quality Institute developing with Number 1 or 2 state prescribing in the country and the medical community is very engaged in a health information exchange structure. So the sooner you get to Providence, you'll be participating in a very active community on that and so God speed.

Mr. BAKER. Thank you.

Senator WHITEHOUSE. And the other question?

Mr. BAKER. About a month and a half ago, I introduced the concept of utilizing an open source approach to the Vista software for exactly the reason that you enunciated, which is the system, through a variety of, I think, management changes made at VA over the last 10 years, has begun to stagnate. Some of that is a focus on what is the next generation.

Frankly, we have a great system right now and while we need to be looking toward the next generation, we can't ignore the current system as we look at that next generation.

The second is, as you pointed out, a lot of the work happens throughout the country, not just in our development labs but also in our field organizations. That, while it has many benefits, from a computer science and a software person standpoint, it can become a nightmare to maintain and we have to balance between those two things. We have to have a system that can be made available over 99.9 percent of the time but also moves innovation forward at the

same time. That's a difficult balancing act and we have to manage that as we go through.

So the purpose with moving toward open source is to get much more of the community available, first, and, second, to potentially make the Vista System available to many more hospitals throughout the country and throughout the world than are currently using it right now.

A little-talked-about fact is that there are more than 50 hospitals throughout the world outside the VA system that have adopted the Vista Electronic Health Record System through open source methods through companies that are providing that.

I think there's real opportunity there to both aid the VA, which is my first goal, in moving that system forward and keeping it the best electronic health record system in the world and, second of all, helping electronic health records expand throughout both the country and the world.

Again, the quality of care is the key focus here and that's what Vista really brings is that increase in quality and care in those hospitals.

Senator WHITEHOUSE. Well, I appreciate it. Let me thank Chairman Warner for his courtesy in allowing me to interrupt with the questions.

Mr. Douglas, I'm sorry I'm not able to stay longer, but I'm grateful to you for coming in and sharing your wisdom with us in this area and again if, in terms of questions for the record, in addition to answering the question I asked Director Baker, if you have any numbers that you are aware of and can cite to us or that you would be prepared to assert to some degree of certainty, you can choose your level of certainty, but this is ultimately a budget-setting interest that we are embarked on and to the extent you can give us some quantification of where you think various savings might lead, I would ask that as a question for the record as I depart.

Senator WARNER. Thank you, Senator Whitehouse. Mr. Douglas, please. As somebody who I think has been down a fairly similar path in Virginia, I'm very anxious to hear your testimony. Please.

STATEMENT OF MR. BRAD DOUGLAS, COMMISSIONER, DEPARTMENT OF ADMINISTRATIVE SERVICES, STATE OF GEORGIA

Mr. DOUGLAS. Well, thank you, Chairman Warner, and certainly to Senator Whitehouse, we will certainly put forth any information along those lines that we can.

Chairman Warner, we're certainly very appreciative of the opportunity to appear before you and during your time as Governor of Virginia, obviously we worked very closely with your team down there and Ron Bell and the folks in General Services in particular. Quite a brotherhood there between Georgia and Virginia.

We're honored to represent the great State of Georgia here today and hopeful that some of the lessons learned in Georgia can be applied on the Federal level. We applaud the creation of the committee that you're chairing and we're very eager to share some of the successes experienced in Georgia.

Early on in Governor Sonny Perdue's Administration, beginning in 2003, the idea of tapping into the private sector for innovative

and proven ideas that could be applied in the public sector really took hold. One of the first things that Governor Perdue did was to create the Commission for A New Georgia and this was a group that asked several private industry executives and even consulting companies on a pro bono basis to come in and take a look at government operations, the back office operations of government, the inner workings, if you will, and to ensure that those studies didn't gather dust, as many studies do in government and elsewhere, the Governor created his Office of Implementation.

This group was charged with making sure the rubber meets the road, if you will, that the studies actually took life and that things were implemented, measured, and tangible results occurred from those.

Those results have been many. For instance, the Department of Driver Services, while waiting in line to renew or get a new driver's license, waits more than 2 hours were common before. Now those waits average less than 10 minutes. The state really didn't have an idea of capital assets that it had, how many buildings it had, how many vehicles it had, how many aircraft it has, and today we manage those on an active basis with data bases of these state assets, and so, in addition to that, agencies operated as they do here on the Federal level, in silos somewhat, very decentralized, without a tremendous amount of collaboration, and so to address those issues and many others, several task forces were created by the Commission for A New Georgia and one of those initial task forces was a task force to review the state's procurement function.

In the state of Georgia, the procurement teams handle about $4 billion in spend. Obviously that's a subset of what the Fed spends but still to the state that's obviously an area that presents a tremendous amount of opportunity.

At the time the state Purchasing Division was composed of what I would say are transaction-focused workers or staff. To be quite honest, they were paper pushers adding little, if any, value to the process. If someone told them what to do, they might do it, but there really wasn't a lot of strategic value in terms of what made up the marketplace and some of the drivers of the procurement market.

The state Purchasing Unit, as a central unit, is charged with establishing statewide contracts, much like you're seeking here, to where the leverage of the entire government, the entire enterprise, could be brought together but yet the collaboration between agencies and even the state universities, of which we have 35, was virtually nonexistent and so therefore the tremendous opportunity that was there just simply wasn't being realized.

Purchasing processes and procedures were misaligned. There was inconsistency rampant throughout the agencies as to how purchasing was even conducted and in fact the state found itself in court numerous times where aggrieved suppliers were claiming that the state had not undergone a fair and level procurement operation and in fact supplier challenges to our purchasing solicitations, they were untracked. We had no idea how many we had. We had no idea how long they were taking, who was resolving them, had we lost any, and yet that's a customer service facet, if you will,

to both the end user who's waiting as well as the supplier who feels aggrieved.

And beyond that, procurement technology was literally nonexistent. There was a homegrown system that allowed the state to post its procurement solicitations to the Web, but the state had no idea how much it was spending on products or services and so the Procurement Task Force recommended numerous changes, nearly all of which have been implemented now.

Legislation was passed drastically revising the Procurement Code in the state. A lot more authority was given to our agency, the Department of Administrative Services, to be able to aggregate the spend, to even set the skill sets and the compensation levels of procurement staffs in the various agencies and universities, to raise them to the current level.

I know Peter Orszag wrote a letter this summer that raising the acquisition skill set throughout Federal Government was a key initiative and the same thing in our state.

And the next step was to recruit a classically trained procurement professional to come in and oversee this procurement transformation and to also engage and manage a very large consulting firm. In our case, it was A.T. Kearney who was brought in to sort of serve as our transformation partner, if you will, set the organization, take a look at processes and procedures and then perform a fit-gap analysis for the correct technology that needed to be put in place.

And to begin the process of revamping the state's procurement function, the state decided that the proper course of action was to focus specifically in this order: people, processes, and then technology, technology being the last that we focused on because, quite honestly, if we're automating a flawed process, then all we've done is automate a flawed process. We haven't improved anything. We've just hung something on someone, if you will.

And so a new organization structure was defined. Commodity teams were put in place to develop resident expertise among different commodities for the products and services, the key products and services that the state purchased throughout the enterprise, and based on that, we also took a look at job descriptions and rewrote those. We benchmarked the compensation levels of the procurement staff against both the public and the private sector to make sure that we had the proper job descriptions and then the requisite skill sets defined as well as the compensation levels. That allowed us to attract the best and brightest procurement professionals in the country back to our state, the State of Georgia.

Our Assistant Commissioner of Procurement we hired from the University of Notre Dame, for instance. Our Director of Strategic Sourcing, we went to a major Fortune 500 company and hired from Microsoft, and those folks who had a focus on strategic sourcing and for those who are not initiated, strategic sourcing is having a vast knowledge of all the market drivers, having high-level negotiating skills, and really being able to form a modern procurement shop by attracting some of those folks by revising the organizational structure and then the skill sets required to perform the function.

And obviously a complete revamping of the purchasing policies and procedures from top to bottom, eliminating delays, eliminating inefficiencies in that process, and just really streamlining overall.

I mentioned the supplier challenges. When we first started measuring those, it was nearly a 60-day delay for suppliers to have their challenges to a state procurement be adjudicated. Those supplier challenges are now down to an average of 14 days and so that is really a tell-tale sign, if you will, of the focus on efficiency and then again the customer service aspect, a very tangible result, and in that process we found that only one and a half percent of our procurements were being challenged anyway and so very valuable information for us.

Again, only when we put the right staff and the processes in place did we try to automate the process and we did so and the result was our new eProcurement platform known as Team Georgia Marketplace. It's a combination of different software packages that had the interoperability that you spoke of earlier and since that time, nearly $800 million in state spend has come through that system.

Now that system deployed January 20th this year. On January 19th, I didn't have any idea about any details on $800 million of purchases. Sitting here on December 10th, I can tell you just about anything you'd want to know about those $800 million in purchases from various agencies and it's only a subset of the agencies in the state because we're having an agency by agency rollout throughout the state as we implement this program. We didn't try to bite off too large of a chunk, if you will.

That project, talking about IT implementation, had a very formal governance oversight to it, if you will. We had a Critical Projects Review Council to oversee the project. We are a People Soft Financial house, if you will, so we have a PeopleSoft Governance Council and that's chaired by the state COO, CFO, CIO, the state Accounting Officer, I sit in on those meetings as well as Procurement.

You have all of the requisite functions that are needed to sit in and provide oversight on state IT projects that meet a certain level, if you will, of magnitude and importance to the state and that's made a real difference in the way the state has managed its IT projects.

As a result of that system and another system that subsequently we have partnered with the Pew Center of the state and again with A.T. Kearney to develop a Spend Cube and that takes disparate data sources from across the state, whether it be a university that doesn't use our core PeopleSoft System, purchasing cards, supplier sales data. It aggregates, normalizes that data, and allows us to make better sense, if you will, of what the state is purchasing, be it products, services, or anything else it might be buying. That allows us to target enterprise-wide contracts that could perhaps be put into place.

A couple of examples, in closing, that we have experienced in the state of Georgia, document imaging, just copying and printing of various documents, a 9 to 42 percent savings over the previous contract by going through the strategic sourcing principles that we have employed for black and white copying, Mr. Chairman, for

color copying and printing, a 67 to 87 percent decrease in price over the previous contract.

Passenger vehicles that all state government workers need virtually, a new contract covering four classes of sedans, a hybrid sedan, pickup trucks, vans, SUVs, the average is 22.4 percent below dealer invoice, great time to be purchasing cars right now. The state stepped in and took advantage of that.

Background checks to make sure that we're mitigating our risk when hiring employees, background checks now, they used to be $45, now $16, a savings of 65 percent. Different reports now range 20 to 65 percent less than they used to be. Those are just a few of the examples that we've cited, more in our written testimony.

We've recently established a national contract for tires and also are looking to establish one for buses that the Federal Government could participate in, other states can participate in, as I think of the collective leverage of states and the Federal Government together, we also reach even down into the municipalities within the state, to try to create that purchasing leverage that you've been speaking about and go to the marketplace, if you will, as the big gun in the market and that's created a tremendous benefit for us.

To sustain this, we're trying to train the rest of the purchasing staff throughout the state. Thus far, dozens of classes have been put into place, 7,000 students have been trained, 3,500 certifications have been handed out, and you only get the certification if you test out that you retained the knowledge and that you have the knowledge the training delivered to you.

In closing, there's three key elements that have made this successful in the state of Georgia. One, top-down leadership. Two, the necessary legislative changes required to carry out these changes. Third, obviously the budget to do so, but certainly the budget has been paid back with the savings that have been generated thus far and that investment has been very, very fruitful for the state of Georgia.

We think that for years to come, this will have a profound effect on the state. We certainly appreciate the opportunity to come in today and present some of the lessons learned in the state of Georgia and hopefully again the Fed can take some of the lessons learned there and apply here.

[The prepared statement of Mr. Douglas follows:]

GOVERNMENT PERFORMANCE:
Opportunities to Improve the Efficiency & Effectiveness of Federal Programs

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STATEMENT PREPARED BY BRAD DOUGLAS

Commissioner, Department of Administrative Services
State of Georgia

Testimony before the Senate Budget Committee

Task Force on Government Performance

December 10, 2009

Mr. Chairman and Members of the Committee:

I sincerely appreciate the opportunity to appear before you. I am honored to represent the great State of Georgia and its efforts to transform its government into a customer focused, performance driven operation that delivers tangible results. I come before you with hopes that lessons learned in Georgia can be applied on a national level, and thus I applaud the creation of this committee and the opportunity to relate to you the successes experienced within Georgia.

Early on in Governor Sonny Perdue's administration, the idea of tapping into the private sector for innovative and proven ways to transform government took hold. Governor Perdue created a Commission for New Georgia (CNG), and asked numerous private industry executives and consulting firms to provide their expertise to the state, on a pro bono basis, to help transform the inner workings of our state government. To ensure the resulting studies did not "gather dust" sitting somewhere on a shelf as happens to most such studies, the Governor created the Office of Implementation to ensure the recommendations of the various task forces under the Commission for a New Georgia were actually implemented.

Results from the Commission for a New Georgia have been many. While waiting in line to renew or obtain a driver license, 2+ hour waits were not uncommon for citizens of our state. Today wait times average less than 10 minutes and are constantly monitored. The state had few, if any, tracking systems of its key assets, and as a result we had no idea how many state buildings, vehicles or aircraft were in operation. Today, we have full accountability of these state assets and actively manage them on a daily basis. Agencies operated in a very de-centralized environment, and little or no collaboration occurred among agencies or universities to realize the synergies and efficiencies across the entire state.

To address these issues and many more, various task forces were created by the Commission for a New Georgia to analyze various areas of state operations. One of the initial task forces created was asked to review the state's Procurement function. In a state where the addressable spend handled by Procurement staff is approximately $4 Billion annually, this area offered a significant opportunity for the state.

At that time, the State Purchasing Division was comprised of personnel who were transaction-focused. They were administrative paper-pushers, adding little if any value to the procurement process. Knowledge of market dynamics, pricing structures, new product introductions and negotiating skills were not among the skill sets embedded into the state's central purchasing team.

The State Purchasing Division is a central procurement unit charged with establishing statewide contracts for the entire state to leverage its spend. Collaboration between the State Purchasing Division and other state agencies and universities was virtually non-existent. Thus, tremendous opportunity was not being realized.

Purchasing processes and procedures were misaligned and inconsistency was rampant in the various ways the procurement process was being conducted throughout the state. The state found itself in court numerous times when several high profile procurement efforts were mismanaged and aggrieved suppliers sued the state for malfeasance in the procurement process for failing to provide a fair and competitive purchasing process. In fact, supplier challenges to the state's procurement solicitations were untracked, with no knowledge of how many procurements were being challenged, the time taken to resolve them, or the reason for the challenge.

Procurement technology was virtually non-existent. A home-grown system was in place to post the state's procurement solicitations on the web, but the state had no idea how much it was spending on various products and services, and thus was unable to leverage the collective spend of various state entities. This obvious lack of control also presented an area of opportunity for the state with regards to its procurement process.

The CNG Task Force appointed to review the state's Procurement function recommended numerous changes, nearly all of which have now been implemented with tremendous results.

Legislation was passed which revamped the state's Procurement code, introducing such key changes as the ability to negotiate on Request for Proposal's (RFP's). Greater authority was granted the State Purchasing Division to define the requisite skill sets and compensation of each state agency's purchasing staff to ensure the needed purchasing transformation could happen statewide. Nearly all purchasing was centralized under the Department of Administrative Services and its State Purchasing Division, and the unit was afforded the ability to fully utilize technology to augment the state's procurement process.

The next step was to recruit a classically trained and highly knowledgeable Purchasing professional to oversee the state's Procurement Transformation and manage the function for the state. A.T. Kearney was selected to assist the state with the transformation, serving to provide direction with regards to organization capacity, fit-gap analysis for procurement technology and process review.

To begin the process of revamping the state's Procurement function, the state decided the proper course of action was to focus on People, Processes and Technology, in that specific order. The Purchasing staff within the State Purchasing Division was woefully inadequate with regards to having the necessary skills to operate in a modern procurement shop. Processes

were misaligned and needed revamping and technology, as previously mentioned, was virtually non-existent.

A new organizational structure was defined to create Commodity Teams within a Strategic Sourcing unit where resident expertise could be housed with knowledge of specific product and service categories, thus affording the state an opportunity to focus on those key product and service categories where its combined spend could be best leveraged in the marketplace. Every position within the division was redefined with a new job description, and compensation levels were redefined and benchmarked against both public and private sector purchasing salaries. These moves then allowed the unit to attract some of the best and brightest purchasing professionals to the state. For example, the Assistant Commissioner of Purchasing was recruited from the University of Notre Dame, while the Director of Strategic Sourcing was recruited from Microsoft. A focus was placed on new hires with relevant procurement experience, advanced degrees and purchasing certifications. As a result of these moves, coupled with Strategic Sourcing principles instilled by the A.T. Kearney team, the State Purchasing Division was able to transform from a *transaction-based* organization to a *knowledge-based* unit.

The Purchasing processes and procedures of the state were then reviewed and changed drastically to streamline the procurement effort. Policy manuals were re-written and the procurement solicitation process was re-engineered from top to bottom, to eliminate inefficiencies and delays. Cycle times were reduced drastically with nearly 6 weeks shaved off the time to conduct Requests for Proposals (RFP's) and a month eliminated in the cycle time for Requests for Quotes (RFQ's). Vendor challenges were measured for the first time. Vendors challenging the state's procurement awards typically endured a near 60-day wait for their challenges to be adjudicated. These now take only an average of 14-days to resolve, and we now know that only 1.5% of all procurements are ever challenged. In fact, it has been over 3 years since the state has been challenged in court on a major procurement award, when legal action by suppliers against the state was formerly a common practice.

Only when the new organization was formed, the right staff was recruited and put into place, and the existing processes and procedures were revamped and re-engineered did it make sense to try and automate the process. The old adage, that if you simply automate a flawed process, you will have an *automated* flawed process, certainly holds true. Thus, the state performed a fit-gap analysis to define its specific technology needs. Knowing specifically what issues we were looking to solve and having those well documented, we employed a combination of software products to form our technology solution.

The result was the state's new eProcurement platform known as Team Georgia Marketplace. As one of the most important technology implementations in our state's history, this project

was delivered on time and within budget this past January. Since that time, nearly $800 Million in purchases have been processed through the system providing valuable insight into what is being purchased by state agencies. While a phased roll-out of the system continues agency by agency, there are currently over 2,400 users of the system utilizing dozens of on-line supplier catalogs. As a result of the system, cycle time for requisitions to be approved and purchase orders issued have dropped dramatically, and the entire purchasing process is a paperless process for agencies that have fully implemented and embraced the system.

Through a formal project governance process, the Team Georgia Marketplace project was one of the first technology projects in the state to be overseen by the Critical Projects Review Council. This Council, composed of the state's COO, CFO, and CIO among other key state executives, regularly monitored, reviewed and checked the project's status to ensure it was tracking to completion as planned. I have included a Project Scoreboard (Exhibit "A") used to manage this project as one example of a tool which was utilized. It serves as an "at-a-glance" view of the project's status as to whether the project is on track, delayed or in a trouble status using a red-yellow-green indicator system. An Executive Steering Committee provided more granular day-to-day insight and management of the project.

As a result of this technology implementation, as well as others, the state now has a much clearer understanding of what it is purchasing, and thus can now begin to exert its collective leverage in the marketplace. Subsequent to the implementation of Team Georgia Marketplace, in a joint effort with The Pew Center for the States and A.T. Kearney, the state has developed a Spend Analysis Tool, dubbed the *Spend Cube*. The Spend Cube aggregates spend information from the many disparate systems throughout the state (realizing that not every state agency has yet to implement Team Georgia Marketplace) to help analyze the state's collective spending habits.

Data feeds come from Purchase Cards (P-Cards), supplier sales data, PeopleSoft transactions, and various other systems used by the de-centralized state agencies and universities across the state. The data is then normalized and analyzed to help determine where dollars are being spent in order to identify where statewide contracts might best leverage the state's collective purchasing power.

Employing key principles of Strategic Sourcing with the data analytics offered by the state's new systems, significant reductions in pricing for products and services used by the state have been realized. Some examples are cited below:

- Document Imaging – A new contract lowers pricing for black & white copying/printing from 9%-42% over the previous contract, while color copying/printing is now priced 67%-87% less as compared to the previous state contract.

- Vehicle Rentals – the outsourcing of the Capitol Hill Motor Pool resulted in the elimination of 160 state-owned vehicles with resulting rental rates 13.8% lower than rates previously offered to state agencies.

- Administrative Vehicles – a new contract covering 4 classes of sedans, 1 hybrid sedan, 4 classes of pick-up trucks, 3 classes of SUV's and 7 classes of vans was recently awarded. The average contracted price is 22.4% below dealer invoice with ranges from 6.8% to 36.1% below dealer invoice.

- Police Pursuit Vehicles – a new contract covering 3 sedan classes and 1 SUV class offers pursuit vehicles priced at an average 16.6% below dealer invoice.

- Background Checks – a new agreement provides agencies, universities and municipalities a consistent approach and methodology to requesting and receiving background investigative reports on existing staff and new hires through a consolidated source. Services include past employment and education confirmation, state and federal criminal history, motor vehicle records, credit history, professional licensure, certification verification and numerous other reports needed for employment and validation purposes. Under this contract, agencies will now pay only $16, instead of $45, for a criminal background check for a savings of 65%. Depending on the specific reports requested, prices were decreased by a range of 20%-65%.

- Temporary IT Staffing – the new contract implements an automatic background check for any Information Technology (IT) professionals hired as temporary staff on behalf of the state. This was previously lacking and posed a real risk to the state. The latest contract features a 15% reduction in the state's labor rates over the previous state contract.

- Tires & Tubes – in a collaborative effort with the largest North American Buying Cooperative for Higher Education, the state revamped its former statewide contract for tires into a national contract, thus achieving some of the most competitive tire prices in the country. With savings ranging up to 49% below the previous statewide contract, average savings of 22% are being experienced on a wide variety of car, light truck and heavy duty truck tires.

The national contract described above for vehicle tires was the first national contract established by the State of Georgia, creating significant purchasing leverage beyond the borders of the state. Recognized as a leading procurement shop practicing the principles of strategic sourcing, the finishing touches are being put upon a nationwide contract for buses which is

expected to leverage more than $500 Million in annual spend. In our state alone, more than 14 different transit agencies are working in conjunction with the State Purchasing team to form a Sourcing Team which will implement the contract. The Federal Transit Authority (FTA) has reviewed and approved the procurement solicitation parameters and will be actively involved in the development and execution of the contract when deployed in early 2010.

Thus, as you can see, the Procurement Transformation in the State of Georgia has certainly created monumental change in the way business is conducted. Tremendous streamlining and reengineering of processes, coupled with smart technology implementations, have created a platform whereupon tremendous and measurable achievements are possible.

To ensure the transformation effort is sustainable, a movement is now underway to train and certify the various purchasing staffs across all state agencies and universities. Already, literally dozens of training classes have been developed while nearly 7,000 students from across the state have been trained in purchasing basics, systems, policies and procedures. Nearly 3,400 certifications have been achieved as certifications and requisite tests have now been developed to ensure that training is retained and properly understood in order to transform agency and university purchasing staffs, so they too can achieve similar results within their own entity, and assist Georgia in uncovering synergies and efficiencies in the way we conduct business.

In the State of Georgia, there are 3 key elements which have made a transformation of this magnitude possible. Those keys are:

- Top-down Leadership
- New Legislation authorizing the changes
- Budget needed to make the necessary changes

With these elements in place, and with regular reporting back to the Governor's Office of Implementation and the Commission for a New Georgia, the Procurement Transformation in the State of Georgia will have a profound effect on our state for years to come. We certainly hope the lessons learned in our state and the type of success we have experienced can be transferred on a national level to federal government.

In closing, we sincerely appreciate the opportunity to present our story to each of you here today, and we look forward to assisting you any way possible to transform the inner workings of federal government. Thank you for your time and consideration this morning.

Exhibit A

GENERAL INFORMATION:	
Agency Name:	DOAS
Panel Review Meeting Date:	
Project Name:	Team Georgia Marketplace
Project Status "As Of" Date:	30-Jun-09
Original Project Budget:	$10,951,200
Total Project Budget:	$10,951,200
Project Start Date:	27-Aug-07
Project End Date:	7-Jul-09

PROJECT HEALTH RATING

Prior Period		Current	
Schedule	Budget	Schedule	Budget
Green	Green	Green	Green

Pilot Wave 3, currently underway, is on schedule and the Rollout Master Plan is completed and approved. The TGM Pilot Project is now in the closure phase.

Yellow	On-track, only minor issues	+ = Improving
	One or more areas of concern	- = Declining
	Significant issues that limit the effectiveness and/or success of the project	N/C = No Change
N/A	Not applicable	

PROJECT PHASES (X - indicates current phase of project)

Initiation	Planning	Execution	Closing
			X

PROJECT STATUS INDICATORS

SCHEDULE			BUDGET			SCOPE			RISK			KPI			ORG READINESS		
Prior Period	Current Period		Prior Period	Current Period		Prior Period	Current Period	+	Prior Period	Current Period	N/C	Prior Period	Current Period	N/C	Prior Period	Current Period	N/C
Green	Green	N/C	Green	Green	N/C	Green	Green		Green	Green		Green	Green		Green	Green	
> Project 98% complete > TGM Pilot Wave 3 Rollout is on schedule for July 27th Roll out (UI) and transitioning of DHR) > 81% of entire eCatalog Supplier Enablement (SoE) complete (99 of 121)	Total Budget $10,951,200 Total Planned Expenditures $8,947,801 Total Actual Expenditures $8,963,165 Estimate Funds Needed to Complete Project $992,521 Available Funds to Complete Project $1,000,147 Contingency Funds $1,000,000					> Registered Supplier/Bidder - 11,550 > TGM reConfiguration for the DHR recognized entities completed > Rollout Master Plan approved. Wave 5 Starts July 7th > Only One deliverable (Post Production Support) left to complete > DRI is training the month of July (on schedule) > New SkiQuest Training Database implemented and in use. >9R9.2 Loaded to the test environment 6/26			> New PeopleSoft project in the State PeopleSoft environment may affect the current and future TGM Rollouts > Failure to install PeopleSoft bundles may require TGM to customize SRM software > Further State Budget Cuts > Cost Allocation needed to continue to support TGM, awaiting OPB approval. >Data Base Server at maximum capacity			> Database refresh process not working (consistently) > State Budget Constraints >Sustainability of Team Georgia Marketplace at risk if Cost Allocation plan is not approved by OPB for FY 2011.			ORG READINESS		

FINANCIALS: Previous Actuals to Date						FINANCIALS: Previous Projected		
Total Budget (State) (a)	Total Budget (Other Funds) (b)	Total Project Budget (c) (a + b)	Total Planned Expenditures (Project to Date) (d)	Total Actual Expenditures (Project to Date) (e)	Expenditure Variance (+ = Overbudget, - = Underbudget) (f) (e - d)	Available Funds to Complete Project (g) (c - e)	[illegible]	[illegible]
$10,951,200	$0	$10,951,200	$8,606,868	$8,595,084	($11,784)	$2,356,116	[illegible]	[illegible]
FINANCIALS: Current Actuals to Date						FINANCIALS: Projected		
$10,951,200	$0	$10,951,200	$ 9,030,028.60	$8,982,353	($47,676)	$1,968,847	[illegible]	[illegible]

Senator WARNER. Thank you, Mr. Douglas. We really appreciate your testimony.

You cited a couple of examples around cars and printing. I would always go around and talk about the fact of using the same tools. We lowered the price of light bulbs from 30–32 cents to 23 cents and it didn't close a $6 billion budget gap that we had but we buy an awful lot of light bulbs in the Commonwealth of Virginia. So I'm very, very anxious to talk. I've got very specific questions for both of you, but recognizing that Senator Cardin and Senator Whitehouse are on the same committee that's doing a mark-up, I'm going to let Senator Cardin go first.

I appreciate him coming by and happy to have his questions.

Senator CARDIN. Well, thank you very much, Mr. Chairman. You're correct. Senator Whitehouse and I are dealing with the Press Shield Issue in the Judiciary Committee. So we wanted to be here because of the importance of the subject but we also wanted to get away from the Press Shield for a little while. So thank you for giving us a reason.

Let me thank Senator Warner first for his leadership on this issue and because I want to come back to that, the need for leadership if we're going to be able to make progress on this subject. He brings not only a commitment to efficiency in government but he brings the experience of a Governor, an effective Governor, in dealing with budgetary issues, and this brings me to the testimonies that both of you bring here.

Mr. Baker, you mentioned the importance of prioritizing projects at the VA and I think that's critical. If you are not selective you start to say, we're going to be efficient in everything, and it becomes an impossible task. You really need to prioritize and infor-

mation technology is an area in which we can make significant progress, and I applaud the VA for doing that.

With regard to Georgia, Mr. Douglas, let me make this observation as it relates to the last point you made about top-down leadership being absolutely critical.

I use the example of Baltimore's CityStat program implemented by Mayor O'Malley. Agencies had to report to the mayor, who was going to check statistics with you, and it caused the bureaucracy to understand that the chief was interested in their progress and it made a huge difference.

Now, of course, Mayor O'Malley is now Governor O'Malley, and he is using that same type of personal accountability, developing a program that I know Senator Warner is interested in, BayStats, where people are held accountable for results in cleaning up the Chesapeake Bay.

That to me is top-down leadership, where a commitment exists to alter a pattern of how contracts have always been awarded, and ensuing that the initiative is identified as coming from the leadership. That's why I think it's very, very important that Congress shows that this is not just another hearing to be followed by a couple more years of inaction before we raise the issue again. We need a continued focus on how to develop a workable strategy to bring about results.

You've shown when you do that, you do bring about savings, you do bring about results, and, yes, you need the legislation aand you need the budget to support that, no question about it.

So my question to you is, looking at the VA and at Georgia, what is the toughest hurdle to overcome to get these programs moving forward?

Some of this seems like common sense: you know these savings are there, but what's the toughest hurdle, what's the most important thing that Congress can do to encourage more programs such as the VA has done with IT and what Georgia has done in its efforts? State efficiency is going to save the taxpayers of this country money. So we're interested in how we can work together on this.

Any suggestions?

Mr. DOUGLAS. Mr. Baker, I'll take that question, if you don't mind, initially.

I think there are a couple things and, Senator Cardin, you really hit upon it. It is that top-down leadership that is key. In Georgia, one of the things that we discovered early on is that the procurement team would sort of sit in an ivory closet, if you will, and dream up ideas for specific contracts. There really was no collaboration with the user base, the different agencies. The collaboration simply wasn't there.

Whenever a statewide or enterprise-wide contract is put into place, there's a sourcing team made up of both agencies and universities. The Federal Government is absolutely huge. Down in the state of Georgia, we think the state of Georgia is huge in terms of the size of the enterprise, with 120 different agencies, 35 universities. From mere absolute numbers, that is large, even larger here on a scale of magnitude in the Federal Government.

What I would tell you is that there are a core number of agencies that form the vast majority of your spend. That's where the focus

needs to be. No one has a mouth big enough to take a bite of this entire chunk of business that is here. We need to hone in on where can we move the needle and the needle has to be moved incrementally.

In Georgia, it's the top eight agencies that generate 80 percent of the executive branch spend, seven of the universities generate 80 percent of their spend. We put those together, that's 15 entities that we focus on for most of what we do. We don't ignore the others but yet we focus on that core group.

Senator CARDIN. I think that's good advice.

Mr. DOUGLAS. And that allows us to move the needle very much.

The second thing that we do is the accountability and celebrating victories and so we celebrate with those sourcing teams when we put these types of contracts in place. By having those sourcing teams, you create the upfront buy-in that this is a good contract, that my needs were met, and in other cases where you find the spend, if you will, the purchasing volume isolated to, say, a single agency or a couple of agencies, we employ what we call the natural ownership model and we would advise them, as they go about putting a contract in place, that that needs to reside with them versus being an enterprise-wide contract to where they feel like they lose control of it.

Senator CARDIN. I think the points you're raising are extremely important. It seems to me that if the reward for doing a job right is getting a smaller budget, that's not necessarily going to encourage positive results. You've got to be able to provide incentives for the savings that are being achieved and that needs to be reinforced. Human nature being what it is, if it's not, agencies are going to go back and do things as they did before.

Mr. DOUGLAS. And that's why our Governor, the first time that we generated savings, he allowed the agencies to choose how to redirect the funding to program areas that needed funding and that's a challenge with our legislature, to be quite honest, and in fact they wanted to come and sweep those savings.

Really, in our group, you noticed the way that I presented the contract pricing deltas is on a percentage basis because it's very difficult for us to know what is on agency planning? If they've just refreshed their PC hardware last year, that has a three-or-four-year life cycle. That won't be replaced again this year.

So to take last year's spend data and try to apply savings to that and say that will reoccur this year, you could run afoul if you aren't aware of the cycle time or what that agency's planning to do.

I really think the Federal Government needs some type of oversight and it may be very much more than OMB can employ, but I know, for instance, the State of Tennessee sort of has an internal swat team, if you will, an internal group of consultants and that seems to be a very, very effective way. If I know, for instance, that our tire contract has been decreased by 22 percent in price, then I can start to make some estimate as to, well, what might that purchasing activity be agency by agency just for those key agencies who have the majority of the volume and it makes it manageable that way.

Senator CARDIN. Mr. Baker, were you rewarded for the good job you did on IT or not?

Mr. BAKER. Absolutely. As an Assistant Secretary, I get a $153,200 a year. It's a great reward. I'm sorry to be a little flip, sir.

Senator CARDIN. No. We appreciate that. We are rewarded in many ways, including our compensation, but again I see this happen frequently, that those who develop with ways of streamlining are rewarded with smaller budgets. It's redirected outside of the savings that you've achieved or people come up to you and say, you know, you should have padded the budget so we could have kept it in the future.

Mr. BAKER. I haven't found anything that indicates that anyone's looking to cut our budget as the result of the savings generated. I think there are a lot of things we can do for veterans with the dollars that we're spending and spend them better.

We have a great mission. I've gotten no—if you'll note in our 2010 budget as that rolls forward, it looks like we will see a substantial increase in technology for 2010 as a result of some work that the Senate and the House and the Secretary and the President have done to put that together.

The major thing, I think, is it makes our budget much more defensible when we can point out here's where we're spending the dollars. We know exactly what results we're getting. I'm hoping that, as we roll into the 2012 budget cycle, my life is very, very easy when it comes to budgeting because I can take all of my thick spreadsheets and information about where all the dollars are going and lay them out to OMB and to the appropriators and have them be confident that a dollar spent with VA is a dollar invested well in improving the life of veterans.

Senator CARDIN. I'd be interested in that; if you've gone to OMB, you'd be one of the first people ever to tell us that they were reasonable. So it'd be interesting to see that reaction. I know they are trying. I have talked to people in your position who tell us that they're not rewarded by the OMB process. So we'd be interested in making sure that there is a reward in the system for efficiency and ways in which, when you come up with these ways in which you can get better value, that—yes, we want savings for the taxpayer, we do, we want to be able to bring the budget much better into balance, but we also want to reward efficiency.

So congratulations for a job well done. Thank you, Mr. Chairman.

Senator WARNER. Thank you, Senator Cardin. And I've got to head out in about eight or 9 minutes. So I've got a couple questions for both of you, but I really appreciate Senator Cardin coming by and asking, I think, very important questions.

I've got a ton of questions. I'll put them in for the record, but I've got a couple very specific ones. Let me start with you, Mr. Baker. I've got three specific questions.

One was I'm very interested in your comment that you said, as you tried to stop some of these contracts how much more difficult it was to stop a contract than start a contract. I think we would be very interested in lessons learned from this experience and are there—should there be some new standard contract language across all our IT projects that allow for the government to exit an in the project if it's not performing? So this ongoing lesson you're

learning right now as you stop these 12, we'd really love to get that.

Second, I am also interested, if you could comment briefly, on what you're doing about contract creep, how do you make sure that you've got a system that has your initial contract officer scope the contract appropriately, and then, you know, what kind of reward or penalty again is the contract officer given if he doesn't have the kind of IT contract creep.

And third, you know, I think one of the comments you made at the outset was that you, in effect, are a huge agency here. You, in effect, really are a chief CIO and you've got that direct responsibility for all procurement and oversight.

I'd love to see if we could—how we could replicate that throughout other agencies and how important that is to making sure you get your job done, and then I've got some questions for you, Mr. Douglas.

Mr. BAKER. Let me take those a little bit in reverse order because it's interesting, Senator Cardin's point, about what was the hardest part of this. For VA, and I think it would be for any Federal organization, making the decision to consolidate IT into a single organization was tremendously painful. It took a lot of pressure from the Hill and it took, frankly, a nearly catastrophic failure of losing the laptop with 26 million veterans' information on it to make it happen.

Senator WARNER. I've still got some scars from the effort we did in Virginia, I can assure you.

Mr. BAKER. Yeah.

Senator WARNER. I understand.

Mr. BAKER. So that is by far the hardest piece of it. Lessons learned. It's interesting because what you find as you look to stop some of these contracts is that sometimes the way the contract is written, it can cost you more to stop it than to just let it keep going. That certainly has issues around it.

We found that we were very intertwined in our contracts. Multiple projects using the same contract, multiple contracts on individual projects and that made things difficult as we negotiated with the vendors to stop them.

So I think there are lessons learned in this. I certainly have learned a number of lessons. When we started in July with stopping 45 projects, my expectation was that by the end of September, we would have them sorted out, done and moved on to the next tranche of things. It's been three additional months and working through all the contractual items. On the program management side, we were ready to go at the end of September with the rest of our IT projects, but until we got to the point where we understood exactly how to handle every project we decided to stop from our contractual standpoint, it caused us to pause in pausing our projects, if you will, at that point. We've got it figured out.

On contract creep,——

Senator WARNER. And on that subject, I would like, I think, our staff would like to see if there is a specific lesson learned or language that should be added to future IT contracts, not just within the VA but on a broader basis, so that if we see your very good efforts replicated elsewhere in the Federal Government, and an-

other agency tries to go through this process, they don't run into the same hurdles.

Mr. BAKER. Absolutely. I think we probably need a conversation with the staff on that whole topic.

Contract creep really is going to be managed by the incremental nature of what we're doing at VA. The biggest change is, as Vivek Kundra mentioned, getting away from big bang contracts where they go for 5 years before they deliver anything and, in general, if you look at the trends, that means they're never going to deliver anything that the customer really wants.

We've moved to saying that all of our IT projects have to have deliverables at least every 6 months and those deliverables have to go to the customer. So it's not a document. It's actual software. What that ensures is that we're getting value. We're getting released software that the customer can look at and determine whether we're getting value on it.

I'm not positive that's going to keep our contracts from expanding in scope. What it will do is keep our contracts from expanding in scope without something, without the equivalent result being delivered for the additional dollars.

One of the things to recognize is that our business changes all the time. Starting a project 1 year and expecting the requirements to stay the same for the next 3 years is impossible. So as those requirements change, the needs of the contract are going to change slightly. We're going to find new things that we want to do. So from that perspective, you build a contract that anticipates the fact that you're going to have additional things that you want to do.

The issue is when you put in place the contract where you expect it to cost a $100 million for a certain set of requirements and at the end you've spent your $100 million and you haven't got any of those requirements fulfilled or it costs you $300 million for those same set of requirements to get fulfilled, I think that's where the real problem comes in in this.

So it takes flexibility if you're going to move to an incremental environment to work with the contractor and make certain that you're getting what that end customer inside of the organization wants, but I think it's going to be difficult to say that contracts are only at a certain value because the customer wants more things as it goes along and if we're getting good value, if we're getting good results for the dollars we're spending, that may well be OK.

Senator WARNER. Again, I have to apologize. I'm getting the hook from my staff. I've got Secretary Geithner waiting down the hall.

You know, I still think we could use some more work on better rewarding contract officers for scoping the contract better on the front end so we have a better expectation.

I want to thank Mr. Douglas for coming up from Georgia and I can assure you I'd like to continue offline on this conversation, share some war stories. Our procurement system was called EVA and I don't know, I would imagine we found some of our most reluctant participants were our universities and I also know that some of our legislators who talked the most about savings were the most resistant when you actually stopped making the local contract in their hometown and you actually took that purchasing up to the state level and leveraged purchasing power.

But I commend the job that you've done for Georgia and under the leadership of Governor Perdue and we'd like to kind of take some of those lessons learned and see how we can bring them in, working with our first panel, with Aneesh and Vivek, to bring those lessons to a broader implementation across the whole Federal Government.

I thank you both. This is—I know again we've lost some of our members. I think these are fascinating topics. I appreciate what you're doing. It doesn't always get a lot of attention, but, boy oh boy, in terms of value for the taxpayer at the state level or the Federal level, it's terribly important.

Mr. BAKER. Thank you.

Mr. DOUGLAS. Thank you.

[Whereupon, at 11:5 a.m., the hearing was adjourned.]

Question 1: ***Was there any pushback from agencies from the consolidation of state procurement operations in the State of Georgia?***

Response:

Yes. In any major business transformation, there is resistance to change by numerous parties. Purchasing is a business with lots of embedded processes. The state's procurement process didn't work well, took too long and often failed while demands of customers were not being met. Agencies wanted performance improvement, but wanted it without the pain of a transformation – a transformation consisting of changes in procedures, technology, training and philosophy. This change also demanded their engagement and participation – so the change was made to be personal in many ways. With our agency, DOAS, being given the specific and absolute authority to make the required changes, the transformation has been easier, if you will, than it have ordinarily been otherwise.

Much of the pushback we have experienced can be attributed to under capacity issues as well as procurement and strategic business competency, or the lack thereof. Another important factor was the marketing of the transformation. The experiences agencies were receiving did not necessarily match what was being marketed – at least initially. So the building needed to occur block by block, but the architecture needed to first be put in place. Time was needed to design the organization & build capacity while still operating under dire conditions. We drove off those staff that could not make the transition and began to close the gap between competency, capability and value to the enterprise by recruiting the correct staff and building new processes and procedures which had to align with what the customers were actually needed.

We viewed this as opportunity and went after those capable and passionate people. I would say to you that one of our discoveries with the large number of private industry professionals who joined us was their surprise and overwhelming revelation of the extent to which they love public sector work. They feel that they

are making a true contribution for good efforts and providing sound service to their communities.

We were also sure to engage the various state agencies and universities, who serve as our customers, in most of the changes taking place. From Sourcing Teams formed to pursue new contracts, to advisory teams formed to build our procurement training curriculum and help plan our technology implementation, customers were actively engaged in the changes being undertaken across the enterprise, and this fostered their upfront buy-in much more so than if the changes had simply been cascaded down to them. We are now in the stage where the pushback has turned to acceptance and we even have some cheerleaders on the sidelines!

Question 2: ***In your experience, what is the best method for publishing and validating savings as a result of procurement consolidation?***

As stated in my oral testimony, savings figures stemming from a procurement transformation can be quite a slippery slope. With the tremendous collaboration among state agencies and universities working alongside the State Purchasing Division to transform our state's procurement function, we felt it vitally important that agencies have some say about the disposition of the potential savings being generated. Certain legislators took estimated saving numbers for gospel and "swept" these amounts of funds from agency budgets, thus penalizing agencies which had worked hard to lend their help in striking new contracts.

Per my example last week, if a given agency purchases new PC hardware or cars & trucks this year, they may not refresh those items again for several years, and thus even though a new lower price is in place the following year, the actual savings depends squarely on what a given agency is planning to purchase. Most often, the Purchasing group is not aware of an agency's purchase plans, so here in Georgia, we can only speak to the pricing delta comparing a new contract's pricing over a previous contract's pricing. Just as I quoted in my written and oral testimony last week, we can lower pricing by a certain percentage in many

instances, however it is incumbent for an agency to take those lower prices and then derive the "multiplier" as to how many of those contracted "widgets" they will buy under the newly contracted lower prices to truly discern actual savings in an absolute manner.

Question 3: ***In Georgia, how do you track procurements by various spending categories, and compare within those categories across the government? How could the federal government make a similar comparison?***

The State of Georgia has undergone a major procurement transformation initiative. As part of this effort, the State Purchasing Division (SPD) has revamped the way it identifies, monitors and obtains spend data with the sole purpose of furthering the effort to find strategic sourcing efficiencies and statewide contract opportunities.

A refreshable Spend Tool has been developed that collects accounts payable, purchase order, and purchase card data from disparate data systems from more than 160 state agencies, universities and colleges. The data is cleansed by normalizing suppliers across all data sets and categorizing all transactions by various commodity codes (i.e., NIGP Codes, UNSPC, and P-Card Merchant Category Code (MCC)). SPD has developed a Category Tree that organizes types of purchases into four spend categories that classify State of Georgia's purchases (i.e., Services, Goods, Infrastructure, and IT). SPD's Categorization Tree was appropriately formed to map MCC to NIGP codes (SPD has a crosswalk for NIGP Codes to UNSPC), to allow enterprise-wide analysis of Georgia's spend.

There are numerous reports that can be derived from the Spend Tool. The reports can delineate a host of information including purchases according to spend categories, the number of state entities that purchase from a specific category, the number of suppliers used, and the number of commodity codes (NIGP Codes or UNSPC codes). This information lends visibility into a variety of strategic sourcing information: what items the State has been purchasing, procurement trends, state entities that do not use statewide contracts, and future statewide contract opportunities.

Once spending categories are identified, they are benchmarked internally and externally. Category and supplier profiles are matched so that the category teams understand the market place before deciding to do a sourcing event. Sourcing waves are developed based on complexity and opportunity. Additionally, SPD's Statewide Contract Review Council evaluates the viability of statewide contract opportunities using data analytics including benchmark findings, category profiles, market conditions, contact information, timelines, and advice to the procurement professional. At the end of the meeting, the category is voted on to determine the potential and value of moving forward with sourcing the category. This internal review process ensures that categories that are presented before the Council have undergone due diligence and therefore have been given the best possible planning and analysis to succeed in the marketplace.

SPD is able to perform **internal benchmarking** by analyzing P-Card transactions, purchase orders, and eCatalog transaction details from the Spend tool. This information allows for cross-state entity price benchmarking against SKU's. Visibility into the last price paid, the weighted average of prices paid and the leveraging of volume across the State is all information that previously would never have been possible without the Spend Tool. The strategic sourcing tool is a great advantage to the state.

External benchmarking against other government agencies is key! It is through the benchmarking process that target savings is determined and the State determines if it is viable for the category to be sourced. The State will be able to understand and learn what the prices of items/services are being bought elsewhere vs. what the State is currently paying.

Category and Supplier Profiles show current market conditions, category trends, profiles on the major suppliers, obstacles and/or barriers to the category. The information collected is used to determine value vs. risk.

By developing a spend tool and using the same benchmarking techniques, the federal government would be able to identify and monitor categories in the same fashion as the State of Georgia. However, if developing a static or dynamic spend tool is not an option, there are other manual processes. Before the spend tool, SPD requested historical spend data from suppliers when categories were identified by looking at commonalities across the top 17 state entities across the state. Once all the data was received from the suppliers, SPD was then able to analyze, benchmark and profile the data just as it does today.

SPD's Cutting Edge Software "Spend Cube" Project Will Help Georgia Better Manage State Spending

Since the launch of the Procurement Transformation in 2005, the State Purchasing Division (SPD) has facilitated great purchasing change for the State of Georgia. With help from Pew Trusts, the initiative's most recent development, the Spend Management Project, has quickly captured high-level state and national support – thanks to the project's use of a cutting-edge statistical tool ("spend cube") and its promise to lend greater visibility and efficiency to purchasing throughout the state.

Project History

The project has origins in the work of Governor Perdue's Commission for a New Georgia (CNG) Procurement Task Force, who recommended the implementation of many best practice ideals to streamline state purchasing and help Georgia reach "best-managed" status. Accordingly, SPD enlisted the help of a technical partner to develop a spend cube for Georgia, which consisted of FY2005 spend data from all state agencies, but was optional for Georgia's 35 educational systems.

In 2008, plans were in motion to create a second, more improved spend cube. Improvements included the inclusion of spend data from all state entity financial systems, including Georgia's 35 colleges and universities, which would help in getting a more comprehensive view of purchasing within Georgia. Additionally, the spend cube would be "refreshable," meaning the new cube would allow for a continual refresh of procurement data, rather than the industry standard practice where tools are created for a one-year snapshot of time.

The Spend Management Project was catapulted into high gear with the support of Pew Center on the States, which is the nationally recognized research body for nonpartisan research of government management practices. In March 2009, Georgia was one of three U.S. states selected to participate in a government research study and to receive a $50,000 grant and intensive management support from Pew experts as part of a "Pew Management Lab." Georgia's research project goals were not only to build the spend cube to collect and analyze spend data from Georgia's more than 160 agencies, colleges and universities, but to develop a spend management manual for educational use by other states. The manual is an important piece in positioning Georgia as a model of purchasing efficiency and in aiding the replication of the spend management solution nationwide.

Georgia's Need for Spend Management

Before the Procurement Transformation, there was little analysis involved in creating statewide contracts. Habits and individual inclination drove contract development, while sub-standard contract management and fractured procurement functions left little opportunity for drawing connections on an enterprise level. The Procurement

Transformation is characterized with operational and process reorganization by SPD to assist with their fundamental goal: to combine the buying power of state entities with similar needs into quality, cost-effective statewide contracts.

The Spend Management Project is expected to further many of SPD's transformation efforts by increasing the visibility of state spending patterns in a way that previously has not been possible. Spend management is a process where buying patterns are determined through analysis of procurement data across different purchasing viewpoints. For this project, purchasing data is being examined from the buying entity, supplier, and product category views, to determine what is being purchased, from whom and at what price. Georgia's spend cube is used to collect, organize and analyze spend data throughout the state, with the ultimate goal of finding procurement process efficiencies and new statewide contract opportunities.

Gaining insight into Georgia's spending patterns requires the inclusion of comprehensive buying data for the state. The spend data used in the Spend Management Project was pulled from three main data sources: the Georgia First Board of Regents (BOR) data warehouse, the State Accounting Office (SAO) PeopleSoft database, and Bank of America's Purchasing Card System for the State of Georgia Purchasing Card (P-Card) Program. The data essentially consisted of all the information stored in the state's accounts payable, purchase order, general ledger, and purchasing card database systems. Ultimately, the Georgia Spend Cube combines spend data from these separate systems into a single table with specialized functionalities to generate comprehensive reports that reflect the state's total spend.

Project Development Challenges

CULTURE OF GOVERNMENT CHALLENGE

Creating Georgia's spend cube was an extensive process, involving many challenges throughout development. However, the first major challenge, best termed "the culture of government," was encountered before the project had really begun. As is common with enterprise-level projects, there were initial state entity concerns involving control, i.e., who would have ownership or jurisdiction of the data collected and who would have the authority to "compel [state entities] to comply." Most of these concerns originated from a lack of knowledge about the project and fear of the ramifications of increased visibility into state buying patterns. SPD organized the Executive Steering and Business Owners Committees to encourage the involvement of upper level government as well as state agencies, respectively. Increased project awareness and communication, coupled with high-level government endorsements, helped to calm fears and dissipate concerns.

DATA CATEGORIZATION CHALLENGE

With multi-level government support and buy-in generated, the remaining challenges dealt with the complexity of the spend cube. Making sense of collected spend data involved an inherent challenge of "categorization," or the requirement that disparate

spend information be systematically organized by the cube, so that enterprise-wide conclusions can be made. Responding to this challenge was SPD's Categorization Tree, which organized types of purchases into various spend categories. The tree offers four primary categories that are fashioned to mirror the strategic sourcing families that classify State of Georgia procurement: Goods, Information Technology (IT), Infrastructure and Services. Each sourcing family is broken down into groups and more granular categories and subcategories. The tree's secondary and tertiary categories were developed using the purchasing industry standard, National Institute of Governmental Purchasing (NIGP) codes, at the 3- and 5-digit levels.

Using State of Georgia sourcing categories and NIGP codes covers analysis of the BOR and SAO spend data, however another measure was needed to ensure that P-Card data could also be properly analyzed by the spend cube. P-Card spend data is written in Merchant Category Code (MCC) "language." MCC is not easily transferable to the NIGP code because contrary to NIGP codes that describe items, MCC identifies individual merchants (suppliers), which are likely to sell multiple items with very different NIGP codes. SPD's Categorization Tree was appropriately formed to map MCC to NIGP codes. Taking all the categorization measures together, the Georgia Spend Cube is geared to collect a variety of state spend data according to the framework of the Category Tree.

TECHNICAL CHALLENGE

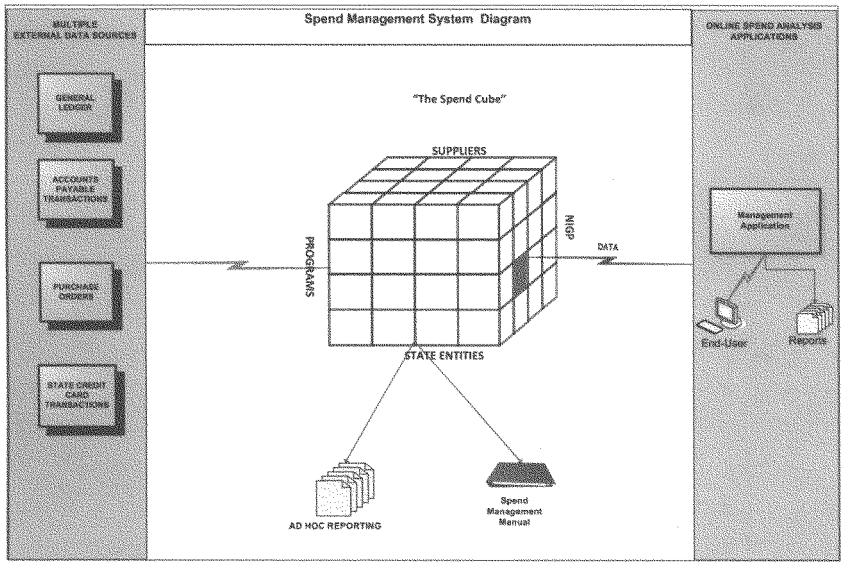
The last challenge in the development of the spend cube is closely related to the categorization issue. Just as the Categorization Tree was needed to organize disparate data in a meaningful way, the combining together of spend data from very different accounting systems required a specialized technical solution to allow for shared reporting and analysis. The specifics of the technical challenge fall outside the bounds of this article, however the chosen solution, a multi-relational database, offered a host of spend analysis functionalities that made this project possible. Details on this multi-relational database will be provided in a forthcoming technology-focused white paper.

Project Status and Future Implications

Georgia's Spend Management Project has a scope of 12 months with a February 2010 completion date. SPD is nearing project completion, with the data collection, development of the multi-relational database (spend cube), and initial categorization phases out of the way and detailed spend categorization at hand. Additionally, SPD is mid-swing into developing the other deliverable of the project, the spend manual. SPD has been working with other states, including Indiana and Virginia, in the development of the project. SPD is working in partnership with Pew Center on the States and the National Association of State Procurement Officials (NASPO) to develop a comprehensive marketing plan to assist with sharing project results and resources on a national level using the DOAS Web site, among other communications vehicles.

In addition, SPD has another project in the works to support the Spend Management Project's goals of aiding in leveraging the purchasing power of Georgia state entities into

quality statewide contracts and to assisting with replication of spend management efficiencies nationwide. SPD is currently gathering requirements on four applications that will center around the spend cube and assist with the promotion of spend management as an effective component of strategic sourcing throughout Georgia and nationwide.



Gaining Insight into Georgia's Spending Patterns External spend data acquired from Georgia state entities is collected, organized and analyzed by the ***Spend Cube***. Using National Institute of Governmental Purchasing ***(NIGP)*** codes, disparate spend information is systematically organized by the cube. The spend data is used to generate comprehensive reports and management applications that will help the State of Georgia identify procurement process efficiencies and new statewide contract opportunities.

Senate Budget Committee Hearing on Data-Driven Performance
Questions for the Record for Vivek Kundra,
Federal Chief Information Officer
Administrator for Electronic Government and Information Technology
Office of Management and Budget
And Aneesh Chopra,
Assistant to the President and Chief Technology Officer,
Associate Director for Technology,
Office of Science and Technology Policy
12/10/2009

Senator Bill Nelson

1. How can we use geospatial information technology to foster transparency, to improve government performance, and to support evidence-based decision-making?

Geographically-coded data has proven to be extremely powerful across business, academic, governmental, and personal applications because of its unique ability to facilitate meaningful pattern-recognition through association of data from various datasets, organized according to physical location. Geospatial visualizations enable individuals to make sense out of massive numbers of data points, and to correlate otherwise unrelated data, by arraying them on a map. Geocoding also enables the filtering of data so that, for example, individuals can focus exclusively on events, alerts, or updates that pertain to their specific towns or neighborhoods. For governmental decision-makers, geospatial data can dramatically enhance their ability to comprehend situational information, integrate and interpret diverse inputs, and act rapidly with full and accurate information.

A compelling example of the power of geospatial information is the Virtual USA initiative. Virtual USA is a standards-based, collaborative, and secure geodata-sharing environment built by a set of Southeastern states, together with the Department of Homeland Security's Science and Technology Directorate. Virtual USA is designed to support emergency response operations and decision-making by providing local, state, tribal, and federal homeland security practitioners with the capability to access and share relevant voice, data, imagery, or other information among jurisdictions, states, regions, and nationally, regardless of where it is stored or what device is used to access the data.

To realize the potential of geospatial data for governmental decision-making and performance, we must standardize governmental data in open, machine-readable formats, and to host it in ways that are searchable and accessible to designated officials (and, where appropriate, the public) using whatever visualization tools they prefer. With real-time access to multiple, interoperable data feeds, government decision-making and performance can be speeded and

outcomes improved. Making this data available to the public, in map-based displays, can greatly increase the transparency of the government's actions and make the information understandable in a geographic context that is not possible through other forms of display (e.g. numeric tables or narrative documents).

2. Are there plans to include web-based mapping and analysis tools as part of the IT Dashboard?

There are no immediate plans to use mapping and analysis tools as part of the Dashboard itself. However, through linkages to contracts data in USAspending.gov, users can currently click through and see geographic data related to individual contracts identified for each investment. We will certainly consider additional geographic capabilities as we move the system from its current beta version to full production.

3. Are the geospatial data and spatially-enabled business data feeding Recovery.gov available to citizens as open source compliant web services, yet in a manner that protects the integrity and security of the information? And if so, is it possible to publish the URL service endpoints?

As owners of Recovery.gov, the Recovery Accountability and Transparency Board is best equipped to respond to this question.

4. Under your leadership, what strategies and incentives might be implemented to leverage the geospatial data collection efforts at the local, regional and state levels to support a fully integrated national geospatial information infrastructure?

Numerous stakeholder organizations participate in the Federal Geographic Data Committee's (FGDC) activities, representing the interests of state and local government, tribes, industry, and professional organizations. OMB Circular A-16 establishes the FGDC, chaired by a designee of the Secretary of the Interior with the Deputy Director of Management, OMB, or designee as Vice-Chair, as the interagency coordinating body for the National Spatial Data Infrastructure (NSDI). The FGDC has a long history of coordinating and leveraging resources with states, local and tribal governments in developing the NSDI. NSDI was established under Executive Order 12906, which calls for improved coordination of the technologies, policies, and people necessary to promote sharing of geospatial data throughout all levels of government, the private and non-profit sectors, and the academic community. The goal of NSDI is to reduce duplication of effort among agencies, improve quality and reduce costs related to geographic information, to make geographic data more accessible to the public, to increase the benefits of

using available data, and to establish key partnerships with states, counties, cities, tribal nations, academia and the private sector to increase data availability.

One innovative example upon which we could build is the Fifty States Initiative, launched by FGDC under their Cooperative Agreements Program (CAP). Under this initiative 46 States and/or territories have received awards to support the development of Strategic and Business Plans for the use of geospatial data. These Plans articulate the States' strategic approach to coordination and process to establish Coordination Councils within their states with local and regional entities. In addition, the Business Plans articulate the requirements and priorities for geospatial capabilities within the States and provide opportunities and targets for federal agencies to leverage their investments with these partners to maximize the investments of all parties.

With the Administration's launching of Data.gov, we now have an innovative means by which the public and all levels of government can access data. In no domain has the initial impact been more quickly felt that of geospatial data. Federal agencies now have a clear central point for the sharing and distribution of geospatial data, where state and local government agencies, and private sector companies, and the American public can find a broad range of datasets from a number of agencies. So broad is the adoption that Data.gov has created a separate "Geodata Catalog" to organize and display the vast number of offerings. Much of this data is easy to access and can be secured over the internet. Using Data.gov as a platform provides a holistic approach to accessing geospatial data and assets.

5. Who has coordination authority over geospatial data, and how are these groups and others going to be coordinated in order to use resources most efficiently?

OMB Circular A-16 establishes the Federal Geographic Data Committee (FGDC), chaired by a designee of the Secretary of the Interior with the Deputy Director of Management, OMB, or designee as Vice-Chair, as the interagency coordinating body for the National Spatial Data Infrastructure (NSDI). FGDC membership includes federal agencies with major geospatial components to their mission. Responsibilities of the FGDC include ensuring federal resources are used wisely, creating and stewarding data standards, spatial data policy development, management and operational decision-making. Responsibilities do not include classified national security-related or intelligence spatial data activities, or spatial data activities of tribal governments not paid for by federal funds.

The National Geospatial Advisory Committee (NGAC) is as a Federal Advisory Committee sponsored by the Department of Interior that reports to the Chair of the FGDC. The NGAC

continues to serve an invaluable role for FGDC. The NGAC includes 28 experts from all levels of government, the private sector, and academia. The NGAC promotes two-way communication on issues of common interest to the national geospatial community and provides a forum to convey views representative of the various stakeholders involved in geospatial issues.

The U.S. Group on Earth Observations (USGEO) was established by action of the Committee on Environment and Natural Resources (CENR) of the National Science and Technology Council (NSTC). The USGEO operates under the guidelines established by NSTC for a subcommittee. The primary goals of the subcommittee are, (1) to continue development and coordination of the U.S. Integrated Earth Observation System (IEOS). FGDC has been geared more to the mapping programs and USGEO has seen participation from the satellite and earth observation programs.

Under this Administration, we will continue to provide the leadership, under the auspices of the Executive Office of the President, to evaluate and bridge these efforts by communicating the goals, plans and projected outcomes from the respective communities. We look forward to working with the geospatial community to forge creative solutions and results to address coordination across the spectrum.

Senator Whitehouse

1. To what extent do you think there could be savings in the $76 billion IT acquisition portfolio? To the extent possible, please quantify your response and feel free to qualify this number, given any level of uncertainty that may exist. Where do you think that number could be if the government were operating optimally?

There are countless opportunities for major savings in the way we use IT in the Federal government. In fact, this Administration has kicked off several initiatives in the past year alone that we expect to drive down government-wide IT costs. One source of great potential savings is the move to cloud computing services. By leveraging the scalability, flexibility and efficiencies provided by cloud computing, agencies can avoid costly investments in infrastructure and maintenance, and lengthy and complicated procurement processes. Part of the cloud computing strategy is the move to consolidate data centers around the country. Today, major agencies in the Federal government operate more than 1,100 data centers, each requiring capital investments and ongoing maintenance costs. By establishing policies to encourage agencies to consolidate data centers, we stand to make major gains in efficiencies and reduce costs.

Addressing IT failures early on is another way we can avoid wasteful spending. Shortly after the launch of the IT Dashboard, the Department of Veterans Affairs (VA), under the leadership of Secretary Shinseki and VA CIO Roger Baker, announced that it will temporarily halt 45 IT projects which are either behind schedule or over budget, the combined budget for which is approximately $200 million. After a full assessment of these projects, VA ended up canceling fifteen. Most recently, we held our first TechStat session, with representatives from EPA's financial management system. Modeled on successful programs like CompStat in New York or CapStat in DC, TechStat is an organized forum in which accountable officials and decision makers coalesce to address ongoing issues and establish a path forward for success. As we continue to make the performance of IT investments more transparent to the public and policymakers, adding innovative tools such as TechStat, we expect to see more and more issues brought to light and dealt with early on, before they become major failures.

2. In terms of efficiency gains from optimal IT investment utilization, are there positive budgetary gains that you see as possible or within the realm of reason? Feel free to couch your answer in whatever way you feel necessary, given the uncertainty here, but I would like you to arrive at a number, however qualified it is.

There are ample opportunities to improve the efficiency of Federal IT spending, and that's where my focus continues to be. Our strategies for agencies to consolidate data centers and to migrate to cloud computing have both been proven as significant cost savers in the private sector. For example, GSA expects to save $1.7 million per year by simply moving its hosting services for USA.gov to a cloud provider. By extrapolating similar cost savings over the thousands of Federal web sites, the potential benefits are enormous. However, there are also areas where there is a clear need for new investment – where innovations are needed and where the cost of maintaining old systems has grown too high. Savings generated as a result of improving efficiencies might, in the short term, be reinvested to shore up our aging IT infrastructure and spur new technology solutions that could substantially benefit the American people.

We recognize that the Federal government lags the private sector in leveraging technology to drive productivity. This is corroborated by research organizations like McKinsey and Company who have said that despite past attempts at management reform, the government seems to have missed out on the productivity gains realized over the last twenty years in the private sector. Improving the government's productivity, by leveraging technology and best practices learned from the private sector, could potentially produce billions of dollars in value for the country. That is why the President recently invited over fifty private sector leaders to a recent forum to share business best practices and other ideas for leveraging technology to streamline federal operations, improve customer service, and save money. Under the leadership of Chief Performance Officer Jeffrey Zients, we intend to aggressively identify and pursue those actions that will produce the greatest improvements in government productivity.

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