THE NATIONAL PERFORMANCE REVIEW

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION, AND TECHNOLOGY

OF THE

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT HOUSE OF REPRESENTATIVES

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THE NATIONAL PERFORMANCE REVIEW

TUESDAY, MAY 2, 1995

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION, AND TECHNOLOGY,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:03 a.m., in room 311, Cannon House Office Building, Hon. Stephen Horn (chairman of the subcommittee) presiding.

Present: Representatives Horn, Flanagan, Davis, Tate, Scarborough, Clinger, and Maloney.

Staff present: J. Russell George, staff director; Anna D. Gowans Young, professional staff member; Jonathan Yates, assistant counsel; Andrew G. Richardson, clerk; Wallace Hsueh, staff assistant; and David McMillen, minority professional staff.

Mr. HORN. The hearing will come to order, and we will begin.

Ms. Rivlin, as you know, the procedure of the committee is to swear all witnesses as well as any associates. So if you don't mind, please raise your right hand.

[Witnesses sworn.]

Mr. HORN. Both witnesses affirmed. Very well, I am glad to welcome you to the subcommittee. Let me open with a brief statement and then we will begin.

Today we begin a series of hearings on Making Government Work. These hearings are intended to move the debate forward in the direction of a clear understanding of how best to achieve the goal of a more efficient and effective Federal Government. It has been said that if you do not know the direction you are headed, you can't really get there. We hope that the hearings will provide us with a comprehensive picture of what government should do.

The administration should be commended for its reorganization initiative. However, making government work is not solely a matter of reorganizing. Any attempt to reinvent government has to come to grips with the need for downsizing and a change in direction.

As Chairman Clinger has said, "The administration's National Performance Review continues to be an important effort. Improving how our government operates is both necessary and appropriate. But in addition to improving efficiency in government, Republicans believe we need to limit the ever-expanding size and increasingly intrusive role of the Federal Government in our lives."

We are meeting here today to hear the views of the interested parties on the administration's National Performance Review ini-

tiative to hear other ideas about government reform. The hearing will provide the subcommittee with an opportunity to review the National Performance Review, hereafter referred to as NPR, and consider whether it represents the best approach to reorganizing government.

In 1993, the administration embarked on a project to improve government. After a 6-month evaluation of government operations and management, a report called "From Red Tape to Results: Creating Government that Works Better and Costs Less, Report of the National Performance Review," was issued which contain over 300 separate recommendations for improving government. At that time, no other fundamental review was planned. However, in January 1995, the administration introduced a second phase.

NPR Phase II required Federal agencies to reevaluate their basic missions and develop proposals for changes that they thought were required. The process is being monitored by a steering committee consisting of representatives from the Office of Vice President and the Office of Management and Budget. Whereas the first phase had focused on how government operates and how procedures could be improved, the second phase focused on what government does.

Today, we want to take a very close look at how the NPR process was developed and how it is working. We will hear from the Director of the Office of Management and Budget and from several other qualified witnesses who have examined the NPR process. We will also hear from witnesses who will tell us about the lessons that States and other countries have learned about the rewards and pitfalls inherent in reforming government.

I look forward to everyone's testimony and to learning from their varied experiences how to make government work: work more effectively, provide better services, and be more efficient. We hope that at the end of the hearings we will have a coherent, comprehensive vision of where we as a government should be going, what reforms are needed and what steps should be taken to achieve the results we want.

Welcome, Dr. Rivlin. We are delighted to have you with us. Please proceed. As you know, we have a general rule in the committees of trying to summarize your written statement in 5 minutes and then proceed to questions, and I assure you we will get all your points out before you leave.

STATEMENT OF ALICE M. RIVLIN, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET; AND JOHN KOSKINEN, DEPUTY DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Ms. RIVLIN. Thank you very much, Mr. Chairman.

I am very pleased to have with me today my very able Deputy Director for Management, John Koskinen, a man who has considerable experience in restructuring private sector operations.

I think we all realize the importance of having government services that work well and don't cost more than is necessary to get the job done effectively. There is a lot of negative rhetoric these days about government, and a lot of stereotypes about government bureaucracy. While this rhetoric has some foundation, it also has a large component of myth.

But under the rhetoric, we all want armed services that are prepared to defend America's interests quickly, flexibly, and decisively. We want a Social Security system that delivers checks on time and in the right amounts to the right people. We want a Veterans Administration that helps veterans get on with their lives. We want national parks that people can enjoy easily and safely. We want safe air and ground transportation. We want all of these services to work effectively, and we don't want to pay more than we have to. That is what the National Performance Review (NPR) is about.

Making sure that government works effectively and doesn't cost too much is not glamorous work. It's not easy. It's not quick. This administration has put a great deal of effort into taking the steps necessary to create a government that works better and costs less.

We started the National Performance Review early in the administration, but it is a continuing effort. It has received the highest level of effort. The President feels keenly about it. The Vice President has devoted a major portion of his time and energy to it. And the Vice President didn't just do that during the first year. He is continuing to work hard on the NPR. That's also true of the Cabinet and the effective new organization called the President's Management Council, which John Koskinen chairs. I had the privilege of chairing the council when I was Deputy Director. It consists of the chief operating officers of the major departments, and continuously focuses on how to make agency operations work better and cost less.

The Office of Management and Budget is building the efforts to improve government into our continuing activities on budget and management issues. But it isn't just taking place at the top levels, it much more importantly involves people at the working levels. We have not extensively utilized outside experts in this effort. This has been an effort in which government is reforming itself. The people on the firing line, who know what is happening, are contributing their knowledge and experience on how to make things work better.

The National Performance Review is not an isolated effort. It builds on the work of bipartisan efforts in Congress over a number of years. The Chief Financial Officers Act, the Government Performance and Results Act, and the Government Management and Reform Act of 1994, have all contributed.

The National Performance Review, as you've said, Mr. Chairman, has had two phases. Phase I focused heavily on how the government should get its job done. It defined customer service standards. It worked on reducing the number of people involved in control functions. It worked on delayering. It worked on reducing the complexity of internal regulations, and on procurement reform. It reduced outdated structures of government, such as field offices.

Where are we now? By the end of 1994, we had taken steps with the Congress to save an estimated $63 billion over the next 5 years. We had cut Federal employment substantially, and published 1,500 customer service standards. Working with Congress, we passed procurement reform legislation, and created a new set of labor-management partnerships.

Many agencies have been substantially reinvented. We are particularly proud of the Federal Emergency Management Agency

(FEMA), which, as the President likes to say, has gone from a disaster itself to an effective disaster response agency. We have seen FEMAs effectiveness in the substantial number of disasters that have occurred on our watch.

The Customs Service has eliminated its regional offices, cut its headquarters by a third and is operating much more effectively. The much maligned Occupational Safety and Health Administration, has cut its operation manual for inspectors by more than three-quarters and is also operating much more effectively.

The Small Business Administration has slashed paperwork and introduced a one-page form for its loans, and we have substantially reduced the number of Department of Agriculture field offices.

We are now in the middle of what we call NPR Phase II, which focuses more on what government should do, as well as on the continuing effort of how to do it better. We began with five agencies that we thought were far down the track and could be aggressively reinvented. We announced those in December: the Departments of Energy, Transportation, Housing and Urban Development, the General Services Administration, and the Office of Personnel Management.

We are now moving on a day-by-day, week-by-week basis to the other agencies of the government and are announcing, as we go along, new efforts in agencies, such as efforts within NASA to reduce duplication and align the organization for new missions.

Let me mention one part of the Phase II effort which I think is particularly important—the creation of performance partnerships among the Federal Government, the States, and other service providers.

In the fiscal 1996 budget, we proposed to consolidate 271 programs into 27 such partnerships. What's a performance partnership? Is it just a block grant? We don't think it is. We believe, as do many on Capitol Hill, that there are too many Federal categorical programs. But we do not think the answer is to consolidate those programs and have no accountability to the Federal taxpayer. The answer is to work with the States, and in many cases localities, to not only consolidate the funding streams but to define what it is that we and they are trying to accomplish together to define performance measures and actual outcomes and measure performance against those standards. We're working hard with States and localities to do that.

This is just the beginning, Mr. Chairman. There is an unfinished agenda. I don't think we will see the end of this effort to improve government in either of our terms of service. We want to come back to civil service reform, which is under your committee's jurisdiction. That's a very important part of making the government work better.

A second procurement bill, which builds on the landmark measure of last year, will help streamline the government's large dollar value purchases, as we did for smaller buys last year, and reduce runaway procurement litigation.

We are changing the ways we plan for, acquire, and manage information technology systems. This will allow us to increase the performance of these systems, which are increasingly important to the management of the Federal Government as well as to every-

thing else. We are also working on financial management and budget account reforms that will help us relate cost to performance as part of the budget process.

The administration views these items as high priorities and plans to focus on them in the coming weeks and months. We plan to seek your help.

In conclusion, while our success to date is encouraging, we can by no means declare victory. The effort to make government work better for Americans will require years of effort and continued long-term attention from the highest levels. Our bottom line should be, do Americans trust their government more today than in the past?

Mr. Chairman, we'd be happy to answer any questions that you may have.

[The prepared statement of Ms. Rivlin follows:]

PREPARED STATEMENT OF ALICE M. RIVLIN, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Good morning, Mr. Chairman and Members of the Subcommittee. Thank you for the opportunity to discuss the Administration's effort to make government work better through the National Performance Review (NPR).

Public trust in the Federal Government is at an all-time low. In 1963, about 76 percent of all Americans believed the federal government did the right thing most of the time. Today, that figure hovers near 17 percent. Many Americans sound as though they want the government to just disappear—except when they need the government's help.

For all the public anger, however, government remains a vital part of American life. After all, it is government that delivers the Social Security and veterans' benefits, provides health insurance for the elderly and poor, builds and maintains the roads, prevents accidents in the skies, and invests in the kinds of physical, scientific, and human capital that can nourish a strong economy in the future.

Because Government is so vital, we must make it work better. We owe that to the people who sent us here. The President and the Vice President are investing an enormous amount of time and effort into doing just that. They are building on previous initiatives that were already underway in various agencies, as well as on the Chief Financial Officers Act of 1990, the Government Performance and Results Act of 1993, and the Government Management Reform Act of 1994. This is a painstaking, un-glamorous task, a long-term project that amounts to continuous reinvention so that government can cope with new challenges.

Two years into our effort, though, this Administration is making real progress. We are creating a government that demonstrably works better and costs less; a government that measurably serves its customers better; a government that can better tell taxpayers what they are getting for their money; a government that is a more satisfying place to work for people dedicated to public service.

Nor am I the only one who thinks so. In late October, Financial World magazine wrote in an "open letter" to the President,

> You've been working behind the scenes to improve government financial controls, contract oversight, performance measurement, strategic planning, training, procurement and a host of other seemingly mundane administrative procedures that ultimately determine the success or failure of any federal program. And we think you are making real progress.

After examining 10 major executive branch departments and agencies, the magazine concluded,

> . . . Most of the 10 agencies have improved under your stewardship.

How are we doing it? I will talk today about how the Administration is attempting to recast the operations of government through the first two phases of our reinventing government effort, about our success to date, and about the challenges that remain.

THE NPR: PHASE I

In March 1993, President Clinton asked Vice President Gore to lead an effort to reinvent government. Unlike the 11 previous government reform efforts over the last century, the Vice President turned to the people who work in the government

to help identify the problems. He believed that—contrary to popular belief—the problem was not the people; it was the systems in which they were forced to work.

In addition, he laid out a clear vision of how to proceed: He focused attention primarily on the "how" of government—the processes, personnel rules, procurement regulations, and other mechanisms that determine how government functions. In Phase I, the NPR was designed to help improve performance in areas where policy makers and the public had decided that government should play a role.

The Vice President spoke with federal employees at every major agency and federal centers across the nation to get their ideas. NPR teams spoke with hundreds of different organizations, state and local officials, and business leaders who have restructured their organizations or used innovative management practices to turn their companies around. More than 30,000 citizens wrote or phoned in. In the end, the NPR developed over 1,200 recommendations, which the President adopted in September 1993.

For instance:

- Despite the focus on customer service in the private sector, few Federal agencies recognized that they had customers. Consequently, had no customer service standards. We recommended that all agencies develop, post, and measure standards as first steps toward changing their agencies' cultures.
- Nearly one of three federal employees—more than 650,000—was engaged in a central control function (e.g., headquarters staffing, supervisory, personnel, budget, procurement, financial management). The Government's focus on control severely limited efforts to streamline operations and prompted most Federal employees on the front lines to treat headquarters as their primary customer. We recommended a reduction in Federal employment by 272,900 by cutting headquarters in half and streamlining agency overhead, both in Washington and the field.
- Agencies had created complex regulations, imposing them on themselves and the public. Disability claims can often take hundreds of days before a final decision is reached; in some agencies, travel administration costs more than the travel itself; procurement procedures add billions of dollars in costs, without improving the products being purchased. We proposed to radically redesign management systems in order to cut unneeded internal regulations and put in place, through executive order, a process for reviewing regulations imposed on the private sector.
- The Federal Government was doing things that no longer made sense. For example, many of the Agriculture Department's thousands of field offices were in place before modern highways and communications were available. The Defense Department was training doctors in a DOD medical school when doctors could be trained through scholarship programs at one-fifth the cost. The Federal Government had over 160 job training programs in 14 agencies. The Defense and Commerce Departments were separately building similar satellite systems. We recommended ways to save billions of dollars by eliminating unnecessary activities.

All told, the NPR's report of September 1993, From Red Tape to Results: Creating a Government that Works Better and Costs Less, contained recommendations that were designed to save $108 billion over five years. Since then, the Administration has worked hard to implement those recommendations, some through its own actions and some through legislation on which it has worked closely with Congress.

By the end of 1994, the Administration had:

- taken steps, largely with Congress, to save an estimated $63 billion over the next five years;
- cut federal employment, as measured by full-time equivalents (FTE), by more than 100,000, putting us ahead of schedule to meet the mandate of 272,900 fewer FTE by 1999;
- published nearly 1,500 customer service standards in over 100 agencies that, in turn, plan to report on their progress on meeting them later this year;
- worked with Congress to enact a landmark procurement reform bill that will streamline the Government's system of purchasing equipment and supplies; and
- spurred the creation of labor-management partnerships across the government, helping to design and implement the changes needed to reform government.

Just as important, some agencies are reinventing themselves from top to bottom, shifting their focus to provide better customer service and results.

- As the President likes to say, the Federal Emergency Management Agency has gone from a disaster itself into an effective disaster response agency. It is serving more disaster victims than ever and doing so effectively—whether in

the Midwest after the floods, in Los Angeles after the earthquake, or, most recently, in Oklahoma City after the bombing.

• The Customs Service is eliminating its regional offices, cutting its headquarters by a third and reallocating resources to its front line operations to help implement the GATT and NAFTA agreements.

• The Occupational Safety and Health Administration cut its operations manual for inspectors by more than three-quarters, freeing inspectors to spend less time following rules and more time protecting workers.

• The Small Business Administration has slashed paperwork requirements for certain loans from a few inches to a single page.

• And those thousands of Agriculture Department field offices that I mentioned earlier? The Department is busy closing 1,200 of them and creating "one-stop shopping" centers for farmers.

As we continue to improve "how" the government works, we have more recently addressed the question of "what" government should do. That is the central question of Phase II, to which I will now turn.

THE NPR: PHASE II

Late last year, the President launched Phase II of the NPR, shifting attention from "how" government should operate to "what" it should do. He asked the Vice President, his senior advisors, and the departments and agencies themselves to develop bold new ideas about what the Federal Government should do, and what it should stop doing.

The NPR and OMB set up teams to study every function and activity of government to decide which ones the Federal Government should continue to perform, which it should eliminate altogether, and which it should shift to the States, localities, or private sector. On this task, these teams worked closely with each major agency.

The first output of Phase II came in December when the President and Vice President announced the restructuring of five major agencies—the Departments of Energy, Transportation, and Housing and Urban Development, the General Services Administration, and the Office of Personnel Management. Since then, we have announced the restructuring of five other major agencies as well as steps to continue our efforts to reform the regulatory system. (In the coming weeks, we plan to announce the restructuring of other agencies as well as further regulatory reforms.)

For instance,

• The Energy Department proposes to save over $10 billion by privatizing the Naval Petroleum Reserves, terminating the clean coal program, selling uranium no longer needed for defense purposes, and significantly cutting costs through such initiatives as contract reform and restructuring nuclear waste clean-up efforts.

• HUD is refocusing its mission to concentrate on economic development for communities and transitions to economic independence for families. The department will consolidate its 60 programs into three broad, flexible performance funds and end public housing as we know it by providing funding to families, not public housing authorities. It also will create a more entrepreneurial Federal Housing Administration by converting it into a government corporation.

• NASA proposes to save $8 billion by restructuring its field centers to reduce duplication and align the organization for a smaller mission. It will change the way it works with prime contractors, making its process more results-oriented and returning NASA to its original role of a research and development agency.

A major part of Phase II involves the creation of "performance partnerships" among the Federal Government and States or other service providers. In his fiscal 1996 budget, the President proposed to consolidate 271 programs into 27 such partnerships.

These partnerships are based on the twin goals of trust and accountability. The Federal Government will trust States by giving them greater leeway to spend Federal resources to solve their own problems. In exchange, the States will provide greater accountability for how the money was spent—that is, what it actually accomplished.

The partnerships will consolidate funding streams and eliminate overlapping authorities, reward desirable results, and reduce micromanagement and paperwork. Of the partnerships in the President's budget, one would combine 70 education and job training programs, allowing States and localities to develop comprehensive approaches to meet their particular needs. Another would consolidate 108 Public Health Service programs into 16 grant categories, based on state-local performance. A third would combine funding for 14 rural development programs and authorize

USDA's state directors to help direct these funds to each State's highest rural development priorities.

THE UNFINISHED AGENDA

As we continue to reinvent government, we need Congress's help to tackle a series of other important items that are central to the task:

- Civil Service reform, which is in your committee's jurisdiction, is an important part of the reinvention effort. Organizations are changing the way they perform work, shifting authority to the front lines and empowering employees. We need to bring the civil service system in line with this new reality.
- A second procurement reform bill, which builds on the landmark measure enacted last year, will help streamline large dollar-value purchases—as we did for smaller buys last year—and reduce runaway procurement litigation on information technology contracts.
- Changing the way we plan for, acquire, and manage our information technology systems will allow us to increase the performance of these systems, which are increasingly important to the management of the federal government and its programs.
- Financial management and budget account reforms will help us relate cost to performance as part of the budget process.

The Administration views these items as high priorities and plans to increasingly focus on them in the coming weeks. We plan to seek your help.

CONCLUSION

In conclusion, our success to date is encouraging but we can by no means declare victory. The effort to make government work better for Americans will require years of effort and continued long term attention from the highest levels of government. Our bottom line should be: Do Americans trust their government more today than in the past?

Mr. Chairman, Members of the Subcommittee, this completes my prepared remarks. I would be happy to answer any questions that you may have.

Mr. HORN. Thank you very much, Director.

A quorum was established before the Director began on Phase II. We are delighted to have the vice chairman of the committee with us here. The ranking member is delayed in New York.

Let me ask a few questions just to get the background here. You mentioned that most of the work was done within the government through task forces and that sort of thing. Were there particular organizations and groups that drafted the proposed legislation that has already been submitted to Congress? Was this primarily the Vice President's group or were there other outside groups involved?

Ms. RIVLIN. Drafting legislation is always a cooperative effort within an administration. It involves consultation with Congress and sometimes with affected parties.

Legislation is usually drafted by the agency most affected. The effort is coordinated by the Office of Management and Budget, along with the Vice President and others.

Mr. HORN. Does OMB take primary responsibility for making sure that the draft legislation is not in conflict with the existing law?

Ms. RIVLIN. Yes.

Mr. HORN. And other proposals?

Ms. RIVLIN. Yes. That's part of our responsibility.

Mr. HORN. Please describe the process by which the administration has established a position with respect to the management and organization features of the proposed legislation. In other words, to what degree are Cabinet officers involved in this process? Are the agencies routinely consulted prior to a final decision being made?

Ms. RIVLIN. It isn't just a question of consulting agencies. They are in the driver's seat. We have not imposed any management changes on Cabinet officers. If these things are going to work, the people who have to carry them out have got to be part of it.

Let me speak specifically about the Phase II operations. What we've done in the last few months, and are continuing to do, is to have a steering group chaired by myself and Elaine Kamarck, from the Vice President's office. John has been working very closely with this group. The group consists of the Office of Management and Budget program associate directors, who are responsible for particular sets of agencies, and their counterparts from the Vice President's staff. They have been working very closely with the agencies.

The agencies have devised the plans, including the legislation that backs them up, and we have interacted with them, reviewed the legislation, come to decisions on what to do and then taken the legislation to the Vice President for his review before it goes to the President.

Mr. HORN. Does the Vice President have sufficient staff to police the process, or is that done primarily by OMB?

Ms. RIVLIN. The Vice President has a small staff. But I don't think it's a question of policing, exactly.

Mr. HORN. Well, making sure things get done when people say they will.

Ms. RIVLIN. Yes. This is a cooperative effort between OMB and the Vice President's staff, the National Performance Review staff. The NPR staff is small. We have a bigger staff, but we also have a lot of other things to do.

I think the cooperative effort has worked very well. It has been different from Phase I where the National Performance Review teams were more autonomous. The Phase II effort has been fit very closely together with the regular processes of the Office of Management and Budget.

Mr. HORN. Perhaps Mr. Koskinen could describe some of the processes, as they work now, with what you know of the history of executive reorganization. I think your knowledge of it goes back to the Truman administration, the Hoover Commission, all the other efforts. Is there something that could be done here that hasn't been done to make sure that what has been developed is actually implemented, that Congress is suitably informed, and that whatever other groups need to be informed have been informed, to make sure we have a successful legislative package?

Mr. KOSKINEN. Actually, I do go back some time. I was administrative assistant to Senator Ribicoff 25 years ago while he chaired the Executive Reorganization Subcommittee of the Senate Governmental Affairs Committee, and so I've spent some time watching this.

I think one of the differences in the NPR process compared to some of the earlier commissions is the point that Director Rivlin made, that the NPR process was not run by outsiders or outside committees coming in and reviewing the government. The NPR process generated its proposals and recommendations from government employees. The Vice President began by reaching out to government employees and the bulk of the ideas that have been presented came from within the agencies. In fact, at one point in

Phase II we noted as we were looking for "bold" ideas that what we were coming up with were not bold ideas, but old ideas that people had not paid attention to earlier. We were delighted to fold these ideas into the process.

Because the ideas have originated in and been generated by the agencies, we're having much greater success at seeing them implemented. The difficulty with having an outside commission or review is that their recommendations often are not owned by the agencies and therefore it is a question of implementation. If you look at the success thus far in the first 2½ years of the NPR, you will see a significant number of programs implemented agency by agency. The agencies themselves are monitoring their program.

The budget process is driving it to some extent in terms of the allocation of resources, but I'm satisfied that we're headed in the right direction.

The Congress thus far has been very supportive. I think you are exactly right; it really requires a multifaceted approach. However, at this point I don't see any need for changes. All we need to do is continue to build on the progress that we've already achieved.

Mr. HORN. One last question on this, then I'll yield to the vice chairman. One of the things President Hoover had that I think was very helpful was the idea of a National Citizens' Commission to help implement the ideas of the first and second Hoover commission. Once that commission disbanded, the momentum was lost. That's usually the case with efforts, they come, they go, and they disband. Obviously OMB has the key role in keeping the ball going as far as both budget authority and management decisions are concerned to encourage the success of some of the reforms.

What I'm wondering is, would an outside commission of very distinguished citizens on a bipartisan basis be helpful, former members of the Cabinet, for example. These people who would be have really had to grapple with some of these problems as well as some scholars that have studied the issues. Would that be helpful to keep reform moving, gaining public support encouraging people to contact their friendly Member of the House and Senate, and so forth and so on?

Mr. KOSKINEN. Well, we can certainly use any support from any level that would be available for this effort. However, my experience, for 20 years of reorganizing failed private-sector companies is that for reorganization to work, and your point is very well taken, they ultimately have to become institutionalized in the agencies or the organizations themselves. Relying on an outside commission as a way to insure progress would not by itself accomplish as much as is being accomplished now.

One of the things that the Vice President and the agencies have focused on in Phase I of reinventing government was the point you made, and that is looking at customers. For the first time the government is viewing itself as servicing customers. As a result of Phase I, there were over 1,500 individual customer service standards that the agencies have designed themselves in consultation with the recipients of grants and with the other people that they interface with. I think that monitoring the performance under those standards over time will provide a more effective way to en-

sure that we continue to make progress, that we continue to listen to the public and their views of the service from the government.

Ms. RIVLIN. There is also a whole establishment of institutions like, first and foremost, the General Accounting Office, and you will hear from the Comptroller General later, that are there to help focus attention on these subjects. Then there are the academic institutions like the National Academy of Public Administration who have taken it upon themselves, and we have been very grateful for that, to mobilize the academic interests and to criticize while keeping attention focused on what we're doing.

Mr. HORN. Thank you.

We will yield now for some questions to the vice chairman, Mr. Flanagan of Illinois.

Mr. FLANAGAN. Thank you, Mr. Chairman, and thank you for having these hearings today.

Welcome, Director Rivlin.

I ask unanimous consent to place a statement in the record.

Mr. HORN. Without objection, so ordered.

[The prepared statement of Hon. Michael P. Flanagan follows:]

PREPARED STATEMENT OF HON. MICHAEL P. FLANAGAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Thank you Chairman Horn. I appreciated you calling this hearing to day to discuss how the National Performance Review has been successful and ways to make the NPR and it's initiatives even more effective. While I strongly believe in an efficient, cost-effective federal government, I know there is a right way and a wrong way to achieve that goal. I do not feel that it is fair to ask the agencies themselves to suggest cuts, redistribution of agency goals, importance of their agency's initiatives and customer appraisal of their performance. Can these agencies be expected to be non-bias and completely fair in their responses? I tend to think these employees have too much at stake or are simply unable to answer these questions.

I also question the NPR in that Phase One and Phase Two do not compliment each other and in some cases work against each other's initiatives. This inconsistency leads to wasted time, money and prolongs the process of decreasing the size of the federal government that Americans are demanding. I am interested to hear the remarks of our witnesses that will help me understand how a program that was originated to make government better has gotten bogged down in the very procedures it was created to reform.

Mr. FLANAGAN. You were just talking about customers and I wonder if you could define the term for me. We've had some difficulty with contributions and other things in the past and the word customer seems to have kind of a nebulous meaning. I wonder if we can nail it down a little bit as to what a customer is and to whom we are being responsive, or trying to be more responsive.

Ms. RIVLIN. I don't think there is a single definition; it really depends on what the agency does. The customers of the Social Security Administration, for instance, are, to a large extent, the beneficiaries of the program, the elderly and disabled who get the checks. The customers of the Veterans Administration are veterans, and the customers of the National Park Service are people who visit the parks.

But that doesn't mean the government only has customers. It also has owners in a sense. The agencies have to be responsible not only to their customers, but to the taxpaying public-at-large. Both of those things are important.

Mr. FLANAGAN. So the taxpayer can be both an owner and a customer, and when the Congress itself requires particular things of

an agency, or establishes regulations for that agency or is, I suppose, to some extent could be a customer to that agency from time to time, particularly when they request information. Do you have some particular focus on how that relationship can be better fostered, or how that relationship can be more effectively fostered?

Ms. RIVLIN. The——

Mr. FLANAGAN. The reason I ask the question, it seems a little nebulous. We are talking about steering more and rowing less, we are talking about being more customer active. We are talking about trying to be more focused like a business upon the actions of potential recipients of benefits or recipients of information or other things they might require from a particular agency, to step forward and say, "Help me, please." There is quite a bit more that these agencies do apart from that, and what I am asking is, where are we going in those areas?

Ms. RIVLIN. I guess the important thing, it seems to me both for the government as a whole and for the Congress, is to be focused on the overall results. What an agency is doing not just for a particular Congressman's constituents, obviously, but what are the results that the taxpayer is getting for the money being expended by this agency? Can we measure it? Is it improving? Is it deteriorating? What can we do about it?

Mr. KOSKINEN. One of the things that I think is going to be a watershed in the relationships of the government with the public and the executive branch with the Congress is the Government Performance and Results Act which this committee played a major role in establishing. It contemplates, as Director Rivlin said, that we will start to focus on the performance of government activities, and answering the question what do we get for the money we spend. This will cause us to start defining the objectives and goals of the agencies and their programs.

The statute very clearly specifies that goals in a strategic plan will be developed in consultation with the executive branch and the Congress. It will cause us all to engage in a very important dialog about what are we actually trying to accomplish with a particular government activity, what's the proper measure of that accomplishment, and what are the actual achievements.

If we can spend in the future more of our time asking questions about performance, we will find that we will spend more of our time actually doing what the chairman was talking about, which is ensuring that the efficiencies, the streamlinings and the reorganizations of the government that we want to have happen will be sustained over time.

Mr. FLANAGAN. Correct me if I am mistaken, Phase I involved what government does and Phase II then only discussed why we are doing it. Is there a reason it was created that way? It seems opposite to what you are talking about in better serving customers and trying to streamline and organize, make government more responsive and make it better, why would he not logically approach what government does first and then how it operates; as opposed to the other way around?

Ms. RIVLIN. Well, I think that might have been a logical conclusion, but what we were most focused on at the beginning was how to take the things government was already committed to doing and

make them more efficient. As time progressed, I think everybody realized that is only part of the question. The other part of the question is, are there some of these things we shouldn't be doing at all? Could the private sector——

Mr. FLANAGAN. An excellent question.

Ms. RIVLIN. Could the private sector do them better? Could States and localities do them better? So Phase II while not absolutely distinct, has focused more on these questions.

Mr. FLANAGAN. I have just one more question. Let's change gears here. I will try not to strip you out too badly. The labor-management relationships that you have discussed, is nonunion labor factored into that at all?

Mr. KOSKINEN. I'm sorry, is what?

Mr. FLANAGAN. Has nonunion labor factored into that at all?

Ms. RIVLIN. Yes.

Mr. KOSKINEN. Yes. We have created under Phase I the National Partnership Council, which includes the leaders of the major employee organizations and is working with managers from the top down into the field in partnerships which are primarily focused on employee organizations and managers. As I said earlier, the entire reinvention operation in the government is drawing upon the information, experience, and ideas of all employees, and all of the reinvention and reorganization focuses on those ideas and feeding them back into their work and trying, as the Vice President says, to empower employees to be able to perform their jobs better. Those decisions are being made irrespective of their union or nonunion affiliation.

Mr. FLANAGAN. I merely wonder about the impact of organized labor. They make up less than 15 percent of the work force in this Nation but they seem to have a disproportional voice, and I was wondering how that factored into your decisionmaking or information-gathering functions that you are doing in regard to labor-management issues.

Ms. RIVLIN. The government is much more heavily unionized than the private sector and that seemed very important——

Mr. FLANAGAN. I am trying to pull lessons learned out of the private sector and apply them to what we might do there.

Ms. RIVLIN. Right. But in order to have a successful restructuring of the Federal Government it is important to work very closely with the unions, of which there are a large number, and get them pulled into partnerships with management.

Mr. KOSKINEN. I would note that, both in the private sector and certainly our experience in the reinvention of government, some of the best and most creative ideas have come from union members and union leaders at all levels. My experience as a member of the National Partnership Council has been that no one has been more focused on improving the performance of the government than union leaders. Their definition of a truly successful partnership is one that improves the performance of the agency involved.

Thus far, employee unions have not been a difficulty, a barrier or a burden. They have actually been leaders in this move to improve the dialog between workers and managers, to listen to workers more and to build on their experience, which oftentimes, in my

experience in the private sector, is often much better than the experience of the managers.

When we did turn-arounds of large, troubled enterprises, we talked to people who actually did the work. Often no one had talked to them before, or more importantly, no one had ever listened to them before. Unions in the government have been great leaders in getting managers to understand that we need to listen to what the workers have to tell us about how to better run the programs in which they are involved.

Mr. FLANAGAN. I agree as long as we are indeed listening to the workers and not to the labor leadership, which is not always the same thing.

I thank the panel.

I thank you, Mr. Chairman.

Mr. HORN. Thank you very much, Mr. Flanagan.

Let me pursue that a little bit. I completely agree with you in the value of asking the people that do work how we could improve it, because they know, and that is mostly what management consultants do when they are hired in private industry or universities or government; they go around asking people things that, if management had had their ears open, they would have discovered. So those ideas are there.

But what concerns me is that in the agreements drafted even within the Federal unions, on work rule changes, do those suggestions pass up the hierarchy and get to the top managers of the department review by OMB and OPM? What is that process like, and are we limiting the line officers from a major role in looking at those agreements before they are signed off on by Federal negotiators?

Mr. KOSKINEN. What is exciting, is what's happening with partnership, and we are now taking the National Partnership Council on the road and every other month we are going out into the field and listening to employees tell us about what's happened in their areas. The partnership concept is proceeding outside of the collective bargaining process. What you have under partnership is that the management at the local level and employees, both union and nonunion, are agreeing that they will talk about and jointly discuss what needs to be done without defining whose rights are involved and who has the authority.

Some exciting things are going on. We were in Chicago last month looking at the Customs operations in Chicago. There, outside of the kind of narrow confines of collective bargaining agreements, the unions and the management have totally redone the way cargo goes through the port of Chicago. This is not part of a collective bargaining agreement, it is part of a partnership. I asked just this question, what the impact was going to be on collective bargaining of all the work that has been going on in the partnership. Bob Tobias, the national president who is on the partnership council, said that, historically the collective bargaining agreement for the Customs Bureau would take 8 to 10 months. Because of all the work that is going on outside of that bargaining agreement, they have actually solved a lot of problems they used to have to bargain about. He thought they would end up with a collective bargaining agreement negotiated in less than 2 months. What I think

is exciting, it is not proceeding as if everything has to be documented in the old adversarial negotiating process. What we have is truly a partnership designed to improve performance.

Mr. HORN. I'm curious, who has examined the work rules that have been negotiated agency by agency, commission by commission, and to what degree has that analysis percolated up the hierarchy for review by OMB and/or OPM?

Mr. KOSKINEN. OPM oversees most of the work rules. There are national contracts that are basically negotiated group by group and are reviewed at the highest levels by OPM.

Mr. HORN. Does your office look at those on behalf of the management side of an administration?

Mr. KOSKINEN. Thus far we have not. We are primarily on those areas, particularly our work with the Partnership Council on reinventing government, looking at going forward so we are spending some time with OPM looking at civil service reform issues and the President's Management Council has spent a lot of time working on the changes that are needed. However, the actual day-to-day management of labor contracts is within the ambit and authority of OPM.

Mr. HORN. Well, the reason I asked that, having been in a very bureaucratic system of higher education, I often found personnel people when I wondered who they were working for at various times. They certainly weren't working for management, or at least they weren't always working to achieve the overall goals. I am sure they felt that they were doing God's work, but the end result from management's side was that you never knew quite where they stood. They were a little soft on everything they did. And I just wondered if that is your experience in the executive branch.

Mr. KOSKINEN. I have not seen that problem thus far, and having spent a lot of time as a trustee of university I understand your experience.

Mr. HORN. Well, before you leave, Dr. Rivlin, let me ask you a couple of questions which I think only you can answer. We understand the administration wants to alter the government's payment operations by allowing the Social Security Administration rather than the Treasury to make the social security benefits payments. Is that true? What do we know about that?

Ms. RIVLIN. This is a proposal under discussion that the Social Security Administration, because it is so large and now an independent agency, should have independent disbursement authority. There has been no recommendation on this proposal yet.

Mr. HORN. What are the pluses and minuses? For example, my understanding is that the Financial Management Service of the Treasury does rather well printing up and disbursing the millions of checks. Have we found something wrong with the existing system?

Ms. RIVLIN. I don't want to get ahead of our process because we're having a meeting next week to explore the pros and cons of this and I want to play it very straight as to what the advantages and disadvantages might be, and I don't want to speculate about it at this moment. As I said, it is not a proposal that has been made by the administration.

Mr. HORN. Do we know if the removal of that function from the Treasury would obstruct or interfere with the collection of delinquent Federal debts that are owed back to the taxpayers? Is that a problem?

Ms. RIVLIN. No, it isn't, and indeed we are focused on improving the management of delinquent debt and giving Treasury more authority to centralize the debt collection because they have been very good at it.

Mr. HORN. So if the administration did go ahead with a central disbursing service within social security, now an independent agency, would that in any way interfere with debt collection if payments were made that should not have been made?

Ms. RIVLIN. No, but I don't want to prejudge the other issue because we haven't decided whether we want to do that or not.

Mr. HORN. Well, I don't know the pluses and minuses either, but what worries me is, would the debt collection be undercut by separate agencies?

Ms. RIVLIN. No, it would not.

Mr. KOSKINEN. It would definitely not be. As a separate initiative, as the Director said, we are reviewing the possibilities of improving debt collection. There was legislation last year in H.R. 3400 that did not pass both Houses that would have improved debt collection, and we're looking at those issues and others. It is clear as we view this that wherever the checks are written in this particular area will not interfere with debt collection. In fact we are going to propose, as we move forward, measures that will improve debt collection.

Mr. HORN. Moving to another area, you have contacted the agencies in response to the Vice President's request in January 1995 that kicked off Phase II. Have most of these agencies replied? Has any failed to reply to the Vice President's memorandum? Where do we stand on that?

Ms. RIVLIN. No, it hasn't—we don't just send out a memorandum and wait for the agencies to reply. We have had for each agency teams jointly led by an OMB person and a National Performance Review person—working actively with the agencies. The agencies have come in with plans. We have been reviewing them. John and I sit every Friday afternoon on the steering committee that reviews these plans. It has been a very active interaction.

Mr. KOSKINEN. I would note that not only the major departments and agencies have proceeded and responded but every agency and operation, no matter what size. There are 132 small to medium-sized agencies and commissions and all of them are under review as well.

Ms. RIVLIN. This is the kind of activity that gives a true sense of the scope of the government's activity. There are many small agencies, some of which I venture to suggest you may have never heard of, Mr. Chairman.

Mr. HORN. Dr. Rivlin, I gather from your testimony that the feeling is that 1 in 3 Federal employees have been engaged in a central control function. I just wonder how that compares to the private sector.

Are there reductions in the Federal Government that are being recommended in field offices and regional offices, or are they in

central management? Where are these reductions coming from to meet the President's goal?

Ms. RIVLIN. They are both and they vary from agency to agency. I don't know whether we have done a real study that would tell us how the proportion of Federal employees in control functions compares to the private sector. The private sector is obviously very variable on this. But the thing that did strike the NPR upon first looking across the government is the extraordinarily large number of people who are involved in personnel functions, budgeting functions, and other kinds of control functions—both in headquarters and in regional offices.

So we have been consolidating headquarters, regional and field offices and generally trying to reduce the number of people involved in control functions, quite successfully so far.

Mr. HORN. How are we doing that? Are we setting a percentage target for the Office of the Secretary, or how do we go about that?

Ms. RIVLIN. No, it has to be much more individualized by agency, because it depends on what kind of an agency it is. Some agencies, by necessity, have more people in headquarters. Some agencies have hardly any; most of the operation is in the field and should be in the field. So we have not set arbitrary percentages.

Mr. KOSKINEN. We do have in the NPR a set of what we call "rebuttal presumptions" based on an analysis of how the management paradigm has shifted in the private sector. Those presumptions included doubling the span of control on average of supervisors from what in the government was about 1 supervisor for every 7 employees to 1 to 15.

There was, again, a general assumption that headquarters functions, not geographically located but their functional issues as a general matter, our goal ought to be to try to cut those by 50 percent to de-layer the levels of review.

As Director Rivlin noted, we stressed to each of the agencies that those were rebuttal presumptions and, to the extent those did not apply in their area, they should simply explain that to us.

Your point about what is going on in the private sector, again, if you take General Motors as an example, it reduced its headquarters operation from 13,000 to 1,300. They did that not to save bodies, but to de-layer the operation and make it quicker and more responsive in these days of fast change.

To a large extent, while our numbers aren't going to be that dramatic, that's what we are talking about. We're talking about trying to remove unnecessary layers of review and red tape so that the agencies are more responsive, that proportionately more of our work and FTEs are in the field doing the work as opposed to being in central headquarters reviewing it.

Mr. HORN. Well, I couldn't agree with you more. I think anybody that has been part of a large human organization has those feelings and the corporations and the private sector that survive this recession that we have been in did that work and they were better for having done it—for cutting out these thousands of internal communications layers that often block decisionmaking and the implementation of decisionmaking.

When I think back to the Eisenhower administration that there were two of us in the Office of the Secretary of Labor who were,

one, an executive assistant, the other the administrative assistant, and I look at who are in these offices now and the vast superstructure there, I wonder how a Secretary can get anything done with all the people writing memos to justify their existence.

And the only way I know how to deal with that, and the way that I have dealt with it when I was in the university, is to just set a target and say, "That's it, folks; you pick the parts you want to remain, but they are coming out of your budget." How active are you getting on this idea?

Mr. KOSKINEN. You have to be careful about an interesting balance. As you look at the private sector, the companies that have done only targeted work, saying, cut 10 percent, or 10,000 people, are the ones that discovered that streamlining or downsizing doesn't work. What you have to do is take a look at how the work is done, where the problems are.

You have to have a target but you also have to analyze where the barriers and the obstacles are, because otherwise what happens is you simply automatically cut whatever the arbitrary number is and you don't change the way the work is done. You don't change the number of levels of review, and you don't, as they say in the jargon, "reengineer" the operation. The net result is that you have fewer people working in the same way trying to do the same amount of work and that can't be done. You have to have targets but you ultimately have to tailor them to the situation in each agency and the agencies ultimately are the ones who have to be the best judges of that.

Mr. HORN. Thank you.

I now yield to the gentleman from Virginia, Mr. Davis.

Mr. DAVIS. Thank you. I apologize for coming in late.

Dr. Rivlin, good morning. I just had a chance to review everybody's testimony last night but I haven't have an advance copy of Dr. Rivlin's. Just looking at it now, you noted civil service reform was some unfinished agenda. Any thoughts on what some of the things you would like to look in that? Obviously we are trying to update a system and government is reinvented as our economy and institutions are reinvented. Any specific thoughts about what you would like to do on the civil service side?

Ms. RIVLIN. Yes, and we will have more specific proposals fairly soon. But I think the general objective of civil service reform is to make it easier for managers in the Federal Government to use their work force effectively, to reduce the number of categories of civil servants that impede promotion, and shift people around into more productive roles. It should also make it easier, although not absolutely easy, to fire nonperformers. The government is very cumbersome in its procedures, and I think everyone agrees that we need to have a way of making sure that people are performing, of measuring their performance and, when necessary, getting rid of nonperformers.

Mr. DAVIS. Thank you very much. I yield back.

Mr. HORN. The gentleman from Florida, Mr. Scarborough.

Mr. SCARBOROUGH. Thank you, Mr. Chairman.

I would like to thank both of you for coming today. Dr. Rivlin, I would like to commend you on the work you have done in this area especially. I am a big fan of your 1992 book, "Reviving the

American Dream," and in fact when many agency heads come here, I have been quoting you quite frequently talking about the need of moving authority away from agencies and back to the States.

I think your blueprint was visionary in 1992, and I would just like to ask you if you feel the administration is moving in that direction through doing this and if you proceed to both of the proposals in the coming years.

Ms. RIVLIN. Yes, I believe we are moving in that direction and the President, having been a Governor, cares very much about giving flexibility to States and localities in doing what they need to do.

The concept of a performance partnership is one that I think is very important, and we are working very hard on that. The objective there is to reduce the number of categorical programs that the Federal Government has and consolidate them, while maintaining a focus on the results that both the State and Federal Government, or the locality in some cases, want to achieve and how to measure them.

That is a little different from devolving functions to State and local government. I think there is a role for that, too. But many of the things that the Federal Government has done over the years are still things in which people have the sense there is a national interest. But the Federal Government, under its present structure, is micromanaging too much and impeding the effective use of resources at the State and local government level.

So I believe this performance partnership concept is a very important one and moves us in the direction that I was talking about in the book.

Mr. SCARBOROUGH. Do your goals in 1995, are they still in line, do you feel, with your goals in 1992?

For instance, I think you talked about a productivity agenda, or I forget the exact terminology, but moving education and labor. Again, I am not just talking about simply devolving and certainly I am not trying to pit you against the President. I am just saying, is your long-range goal, do you believe this government's long-range goal should be to have the productivity agenda through education and labor to be handled more on the State and local governments if they can—if they prove themselves capable to doing it 30 years later when they may not have been able to do it as effectively in 1964 and 1965?

Ms. RIVLIN. Yes, I do think that. But I think the Federal Government has a role to play and can facilitate reform at the State and local level. We have emphasized that in Goals 2000, for instance, which is not a Federal program in the sense of the Federal Government telling the States and localities what to do, but rather it is the Federal Government helping to develop a process of focusing on goals. So, yes, I think my goals are very consistent.

Mr. SCARBOROUGH. Great. I thank you for your time. I thank both of you for your work on this, and again, this isn't about ideology, it is about what works and what didn't work, and we certainly hope we can continue to have a partnership with you in this area.

Ms. RIVLIN. Thank you.

Mr. HORN. Director Rivlin, before you leave, let me ask you about the Volcker Commission, the National Commission on Public Serv-

ice. They recommended a significant reduction in the number of political appointees in order to enhance the President's capacity to manage. They claim that often the short-run political considerations which are usually the focus of political appointees may conflict with the long-run interests in more effective and efficient government.

Has the NPR steering committee any plans for curtailing the proliferation of political appointees, particularly in the light of the administration's difficulty in filling political positions? We're talking now about schedule C, may I say, not simply Presidential appointees.

What is your reaction? You have served inside a number of administrations. You have watched a lot of others from the Brookings Institution, where you and I used to be.

Ms. RIVLIN. There are certainly more political appointees than there used to be. You referred to the Eisenhower administration. I served in the Johnson administration and there was a much thinner layer of political appointees in those days.

Whether there are too many now I think is not a question that the NPR has really addressed. There are about 3,000 political appointees out of roughly 4 million government employees, including the military. That may or may not be an excessive number. I think it would be sensible to look at the actual performance of political appointees in various agencies and see whether there could be fewer of them. The administration has not actually filled all of the political appointee positions.

Mr. HORN. One of the things that concerns me and I think NPR might have discovered this, is that there are 32 layers between the Secretary of Transportation and the controller in the Los Angeles International control tower. Not that I want the Secretary phoning him or her up and saying, "By the way, there is a plane on the left side," but it just bothers me that there are these many layers of communication. Could we not really try to cut some of these layers out besides the staff interchange? Sure, you have got to get a general counsel sign off on things and so forth, but it is the number of layers that bother me. What do you feel about that?

Mr. KOSKINEN. That's right. In fact, that's the real question. It is not so much whether we have political appointees in those jobs or career appointees because in those 32 layers, a number of those are career managers. The real question is, what's the right number of layers, what's the right level of supervision, and what's the right span of control for supervisors. In some of the reorganizations that we've looked at already, when we talk about consolidating positions we are talking in effect about eliminating political positions in some cases because we are going to abolish those jobs.

But we're not doing it because it's a political position. We're doing it for just the reason you raised, and that is because we need to improve the efficiency and the speed with which an agency can respond to what's going on in the real world. I think that is ultimately going to be the driving force for looking at this issue.

Mr. HORN. Very good.

Does anyone have any additional questions?

If not, we thank you both for coming. You have started us off with some stimulating discussion and ideas, and we wish you well.

Ms. RIVLIN. Thank you. We would be happy to answer any further questions you have.

Mr. HORN. Sure. Thank you so much.

Panel two is called forward. The Comptroller General of United States, Mr. Bowsher; Mr. Stevens, Deputy Director of the General Government Division; and Mr. Dodaro, the Assistant Comptroller of the United States for Accounting, Information and Management.

If you would raise your right hands, gentlemen, we will swear you in.

[Witnesses sworn.]

Mr. HORN. The clerk will note that all affirmed.

Mr. Bowsher, please begin.

STATEMENT OF CHARLES A. BOWSHER, U.S. COMPTROLLER GENERAL, GENERAL ACCOUNTING OFFICE; L. NYE STEVENS, DEPUTY DIRECTOR, GENERAL GOVERNMENT DIVISION, GENERAL ACCOUNTING OFFICE; AND GENE L. DODARO, ASSISTANT COMPTROLLER GENERAL, ACCOUNTING AND INFORMATION MANAGEMENT DIVISION, GENERAL ACCOUNTING OFFICE

Mr. BOWSHER. Thank you very much, Mr. Chairman.

I will summarize my statement. We issued a report on the NPR in December 1994, and at that time we said about 90 percent of the recommendations in Phase I had been acted upon in some fashion. A few had been fully implemented. Only about 40 percent have been partially implemented at this time, as Alice Rivlin indicated. There was no action on 5 plus percent of the recommendations that they had in the Phase I report.

We generally agree with more than three-fourths of the NPR recommendations, and many of the NPR recommendations actually are basic themes that we have been stressing with our GAO reports for the last several years. We do have some concerns. NPR addressed a wide range of issues, but not what we think are some of the central management issues that are facing the government.

On page 5 of our report, we said that the 384 NPR recommendations touch upon a wide range of issues in need of improved management. However, many critical management issues were not discussed. For example, although the NPR recommendations were related to 13 of the 18 GAO-designated high-risk areas and 34 of the 84 OMB-designated high-risk areas, the recommendations did not touch upon several of these high-risk areas such as the Farmers Home Administration's farm loan program, which has had many problems; the defense weapons systems acquisition; defense contracting pricing; defense inventory management; and several other areas that are listed on page 5 of our report.

We also raised the issue that a number of the recommendations that NPR said would yield substantial budget savings between fiscal years 1995 and 1999 have not been implemented. These recommendations and the savings that NPR said would accrue during that period include such big items as improving the Social Security Administration's disability claims processing, which NPR priced at $4 billion; redirect the Department of Energy laboratories to post-cold war priorities, which they priced at a little over $2 billion; instituting and collecting user fees on the Food and Drug Adminis-

tration's inspection and approval processes, $1.4 billion; and administer the employment and training requirements for food stamp recipients more effectively and efficiently, priced at $1 billion.

So we think that some emphasis should be placed on these areas in addition to the ones that have already been included in the NPR report.

We also pointed out that we thought there were three themes that were crucial to the long-range success of the NPR. One, was you really need a good partnership between Congress and the executive branch. In other words, you are not going to get this job done unless the two groups are working together.

Two, agencies' capacity to achieve the NPR recommendations while downsizing has to be improved, including the capability of the people, the training of the people, and also the systems. In other words, today all large organizations are pretty much run through systems processes.

The Federal Government's processes and systems are, in general, not in good shape, so investment in this area, I think, is awfully important. I was pleased that John Koskinen emphasized how important it is to get the work processes straightened out as you go through this whole NPR reengineering effort.

And, of course, the last item is sustained attention. In other words, you can't achieve this kind of reform in a year or two. You have to do it over a number of years, but we do have a problem in our government with Presidential appointees.

I think your question about the Volcker Commission was a very key one there. We need good people at the Presidential appointee level, but we also need for them to stay and do the job. I don't know whether we need as many as we now have. I think that was a very good issue that the Volcker Commission raised at that time. And I think another key is the SES. In other words, the senior civil servants are very important.

I know at my own organization, at GAO, we have worked to achieve a really first-rate SES team. I think if all the departments in the government could achieve that, the government would work very well. And so you've got to get that achieved, I think, as part of the sustained attention that you are going to need to achieve these kind of reforms.

I would just say that on the Phase II effort, which began in December 1994, we have not had a chance to review much of the progress there. The OMB people are planning to do a spring 1995 assessment. But these are major initiatives, including agency restructuring, regulatory reinvention, and federalism.

So there are some major efforts here in Phase II, and I think Congress needs to continue its oversight. Starting these hearings, Mr. Chairman, is an excellent beginning, and I believe the series of hearings you're planning makes a lot of sense.

What you are going to need is good information on how well things are going and you're going to need some benchmarks and some milestone reporting by the executive branch. And I think following it by the Congress is very important. Congressional oversight here is very key.

I would just like, in closing, to make a couple of remarks about the CFO Act and the Government Performance and Results Act.

Ms. Rivlin mentioned that the taxpayers no longer trust the government as much as they used to. I think the CFO Act is very key to improving that trust. In other words, accountability—how well their money is being accounted for after it comes into the government.

The financial management systems of the Federal Government have been in terrible shape for many years, and I think the program the Congress has enacted calling for audited financial statements of the 24 largest agencies and a consolidated financial report sent out to the taxpayers in 1997 is exactly what is needed to try to rebuild the confidence of the American people.

It's also important in judging how well all this reengineering and improved reform management reform is working. A gentleman from Australia pointed out that having good cost information finally became important to the managers in their government once they were held accountable for that. In other words, they didn't want to be held accountable for program results when they didn't know whether the cost information was any good or not.

So I think as part of the CFO Act getting good cost information is very important. Regarding the Government Performance and Results Act, there are now about 75 demonstration projects that GAO will audit, review, and report on to the Congress. Those audits, I think, are going to be very important to see how well the agencies can do.

So on balance we think that the NPR is a good effort. It has certainly set up a good umbrella here for improving the government operation. And I think that we look forward to working with the Congress to try to monitor it and see how well it does. We'd be happy to answer any questions.

[The prepared statement of Mr. Bowsher follows:]

PREPARED STATEMENT OF CHARLES A. BOWSHER, U.S. COMPTROLLER GENERAL, GENERAL ACCOUNTING OFFICE

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the administration's National Performance Review (NPR) initiative. The first phase of NPR began in March 1993 and focused on how existing government programs could operate more efficiently and effectively. The second phase, commonly referred to as NPR II, began in December 1994 and focuses primarily on what government should do. My testimony today will discuss our perspectives on each phase of the NPR initiative based on our NPR reports and our limited assessment of the NPR II proposals that have recently been announced.

NPR—PHASE I

In September 1993, after 6 months of study, NPR made 384 recommendations designed to make the government "work better and cost less." The recommendations covered 27 federal agencies and 14 crosscutting government systems, such as procurement, human resource management, and budgeting. Following an interim status report issued in December 1993,[1] we issued an in-depth analysis of those recommendations in a December 1994 report, noting whether we agreed or disagreed with each of the recommendations and describing their implementation status.[2]

We reported that over 90 percent of the recommendations had been acted upon in some fashion but few had been fully implemented. More specifically, only 4 percent of the recommendations had been fully implemented by the fall of 1994—1 year

[1] Management Reform: GAO's Comments on the National Performance Review's Recommendations (GAO/OCG-94-1, Dec. 3, 1993).

[2] Management Reform: Implementation of the National Performance Review's Recommendations (GAO/OCG-95-1, Dec. 5, 1994).

after they were announced. Another 37 percent of the recommendations had been partially implemented. Slightly more than half had been acted upon in some manner but not to the point where we considered any of the recommendations' goals to have been achieved. No action had been taken to implement about 5 percent of the recommendations.

Overall, we "agreed" or "generally agreed" with more than three-fourths of the NPR recommendations. This level of agreement is not surprising given that NPR emphasized many of the basic themes that we have stressed for years. We had insufficient information to comment on 86 of the 384 recommendations but disagreed with only 3.

Although NPR's recommendations addressed a wide range of issues, we noted in our December 1994 report that they did not address many other critical management problems. For example, they did not address a number of issues that the Office of Management and Budget and we consider to be high-risk areas. These issues include defense inventory management practices that have resulted in unneeded inventory valued by the Department of Defense at $36 billion and problems plaguing federal information technology initiatives, such as the Federal Aviation Administration's air traffic control modernization project.

The NPR recommendations also did not address nearly three-fourths of the issues we identified last year for the former chairman of this Committee as the most important management problems facing 23 federal agencies. These issues include the lack of effective controls over Department of Defense disbursements and inadequate project management and planning in the Department of Energy. Therefore, while we believe the recommendations NPR made are an important contribution toward improved federal management, we also believe that significant additional opportunities remain to make government work better and cost less.

Observations on the Long-Range Potential for NPR I Changes

In both our 1993 and 1994 reports on NPR, we said three themes were crucial to the long-range success of the reinvention effort. First, the administration must work in partnership with Congress to develop mutually agreed-on goals and implementation strategies, particularly on some of the more contentious and difficult changes NPR recommended. Second, attention should be paid to agencies' capacities to take on the additional responsibilities that NPR envisions in a downsized, decentralized, and deregulated environment. Careful workforce planning and reengineering of outdated systems and structures are needed to ensure that downsizing does not diminish program performance and increase the potential for fraud, waste, and abuse. Third, because some of the NPR recommendations will take several years to implement, sustained attention is needed from top political and career leadership to create and guide these long-term management improvement efforts.

The NPR recommendations were organized around four general principles: cutting red tape, putting customers first, empowering employees to get results, and cutting back to basics. However, the recommendations addressed an amalgam of issues and proposed an array of seemingly unconnected solutions. In our 1994 report we noted that to be successful in the long run, NPR would need to sharpen its focus and bind the recommendations together into a more coherent framework that could better permit the government reform movement to take root and flourish.

One way to provide that focus is to more clearly define government management in terms of results or outcomes to be achieved. Today, government management primarily focuses on the efficient use of allocated resources, adherence to procedural requirements, and accomplishment of certain output-related tasks, such as the number of claims processed or the number of inspections completed. A reinvented government, while not ignoring these traditional management elements, should focus more on defining and measuring programmatic results, such as reduced infant mortality or effective collection of taxes.

To make the transition to reinvented government and results oriented management, we said three things are needed. First, agencies' goals must be clearly stated in outcome-based terms, and means must be developed to measure progress toward achieving those goals. Second, decisionmakers must have much more reliable programmatic, financial, and operational information that will enable them to know whether agencies' goals are being achieved and systems to bring that information to decisionmakers in a timely manner. Finally, management structures and processes need to be redesigned to reinforce the focus on outcome-based management.

NPR—PHASE II

The second phase of the NPR effort began in December 1994 and has four primary components: (1) an agency restructuring initiative, (2) a regulatory reinvention

initiative, (3) a federalism initiative, and (4) further implementation of the phase I recommendations.

Thus far, NPR II has primarily taken the form of periodic announcements regarding either proposed restructuring or changes in the administration's regulatory approach. Even less has been announced regarding the federalism initiative, although several of the agency restructuring initiatives involve devolution of authority to and performance partnerships with state or local governments. NPR staff are conducting a spring 1995 reassessment of agencies' implementation of the phase I recommendations, but that reassessment has not yet been available to us.

Agency Restructuring Announcements

According to NPR, the objective of the agency restructuring initiative is to "[e]xamine the basic missions of government to find and eliminate things that don't need to be done by the federal government and sort out how best to do the things the federal government should continue to do." Several such efforts have been announced in recent months:

- On December 19, 1994, the President proposed restructuring three cabinet departments (Energy, Transportation, and Housing and Urban Development) and two major agencies (the General Services Administration and the Office of Personnel Management).
- On January 3, 1995, the Vice President sent a memo to the heads of all executive departments and agencies asking them to form teams to fundamentally rethink their missions. Information from these agency teams is being used within the administration to decide how the agencies will be reinvented.
- On March 27, 1995, the President announced restructuring and streamlining initiatives at four more departments and agencies—the Department of the Interior, the National Aeronautics and Space Administration, the Small Business Administration, and the Federal Emergency Management Agency.
- On April 12, the Vice President announced a set of reinvention initiatives for the Social Security Administration.

To date, NPR has targeted a total of 10 departments and agencies for restructuring. NPR staff told us that others are due to be announced every 2 to 3 weeks until June 1995.

Regulatory Reinvention

The NPR II reinvention of federal regulatory processes is focused on the way the federal government both regulates and enforces its regulations. On March 4, 1995, the President directed the heads of all departments and agencies to:

- conduct a page-by-page review of all of their agencies' regulations, which is to be completed by June 1, 1995, and eliminate or revise those regulations that are outdated or otherwise in need of reform;
- change the way they measure the performance of both their agencies and their frontline regulators to focus on results, not process and punishment;
- convene groups of frontline regulators and the people affected by their regulations at various locations across the country; and
- expand their efforts to promote consensual rulemakings.

On March 16, 1995, the President announced the first of what is expected to be a series of agency-specific and governmentwide regulatory reforms. Initiatives for the Environmental Protection Agency focused on such issues as cutting paperwork burdens, incentives for self-disclosure and correction, and extended use of emissions trading. Proposed reforms for the Food and Drug Administration included allowing changes in certain manufacturing processes, elimination of certain special drug requirements, and exemption of additional categories of low-risk medical devices from premarket review. Proposed governmentwide changes included:

- allowing small businesses that are first-time violators of regulations an opportunity to avoid punitive actions by correcting the violations;
- allowing agencies to waive up to 100 percent of any punitive fine on a small business if the sum will be used to correct the underlying violation; and
- requiring regularly scheduled reports only half as often, wherever possible.

Our Observations on NPR I Also Apply to NPR II

We have not assessed the specific proposals in either NPR II's restructuring or regulatory initiatives. However, based on our limited review of the administration's recent announcements, we believe that the themes and issues that we emphasized in our 1993 and 1994 reports about NPR I are also applicable to the NPR II proposals. We strongly believe that Congress and the administration should work together as much as possible on restructuring initiatives and regulatory changes. For example, as the administration announces its proposed changes to agencies' structures and programs, Congress is considering its own proposals to eliminate certain depart-

ments and agencies, privatize several current federal functions, and devolve program responsibilities in a number of areas to state and local governments. These parallel efforts will undoubtedly surface many innovative and thoughtful ideas for reconfiguring federal agencies and programs. Once surfaced, however, Congress and the administration should work together as much as possible, particularly since any systemic changes to federal structures and functions must be approved by Congress and must be implemented by the executive branch.

Our NPR I comments about the need for sustained leadership and the need to pay attention to agencies' capacities are also applicable to NPR II proposals. Sustained leadership will be needed because implementation of agency restructuring changes will take longer than implementation of the NPR I recommendations and the issues are more complex. Capacity issues will be important because not only must decisionmakers be concerned about the capacities of federal organizations, they must also be aware of the ability of nonfederal entities to accept additional responsibilities.

We support efforts to move to a smaller, more efficient government. However, both downsizing and restructuring efforts must be done strategically and should be based on sound workforce plans. These steps are necessary to ensure that program performance does not diminish and the potential for fraud, waste, and abuse does not increase. Before major changes are made, decisionmakers should ensure that the capacities of both the entities receiving additional responsibilities and the entities responsible for program oversight are able to perform those duties.

The issues we discussed in our December 1994 report about how to move to results-oriented management are also valid regarding the proposed changes in NPR II. For example, we believe that an agency's mission and goals statement should be the foundation upon which all of its restructuring proposals rest. The agency's goals should be clearly stated in outcome-based terms before steps are taken to privatize or devolve its functions, consolidate its programs, or alter its organizational structure. Proposals to change the design and delivery of an agency's programs should be based on an understanding of the needs of the people the agency serves, the appropriate federal role in these areas, and a clear statement of the outcomes that the agency is attempting to achieve.

Reliable Information Needed to Assess NPR II Proposals

Once an agency's mission and goals are clear, congressional and executive branch decisionmakers will need more reliable programmatic and financial information to assess the NPR II proposals and to evaluate their implementation. Implementation of the Government and Performance Results Act of 1993 (GPRA) and the Chief Financial Officers (CFO) Act is helping to provide these types of data. Under GPRA, agencies are to develop strategic plans by fiscal year 1998, prepare annual plans setting performance goals by fiscal year 1999, and report annually on their performance starting in March 2000. NPR II may, in fact, result in departments and agencies choosing to accelerate this schedule because restructuring will require some of the same analysis of goals and strategies. The Government Management Reform Act recently expanded the CFO Act's requirements to cover all 24 CFO Act agencies and to require a consolidated financial statement of executive branch agencies in fiscal year 1997. Decisionmakers should use these and other data sources in reexamining longstanding policies and organizational arrangements.

Mr. Chairman, this concludes my prepared statement. We will be pleased to answer any questions.

Mr. HORN. Thank you very much. I appreciate always having your testimony.

Let me ask you a few questions. You've had to go through this experience yourself in downsizing GAO. Is there anything that you did there that you have not seen the NPR do that you think NPR should be doing?

Mr. BOWSHER. Well, I think we put a lot of emphasis on the people issues. We have changed from the regular GSA 18 levels or 15 levels that you had to four bands. We have reduced—tried to reduce—the layering of our organization and get more people who were in what you might call the review process actually out there doing the work.

We made a major effort in our recruiting to go to the colleges and universities and recruit the very best people, and we were very suc-

cessful. Before we started to downsize we had 5,000 to 7,000 applicants for 250 positions from the best universities, and even people from the private sector were coming to GAO.

I think promotion is very key. We promote on a merit-based system. I think the selection into the SES is very crucial. We do that through a board system of selecting people. We don't just take the person, as I often said when I served as Assistant Secretary of the Navy. I had the impression sometimes that the person who flew the most flights off the carrier deck was promoted to admiral, and the job of admiral is quite different than being the pilot off the aircraft carrier. So we select our people into the SES on the basis of the leadership capabilities of those people for the future as we give them the various assignments.

We are working very hard on improving technology, too. We brought in video conferencing. We brought in the computers. We are networking the organization. We have cut the number of our offices in half. So we're tightening up, you might say, the organization as we work here. So those are some of the key things that we have worked very hard at GAO to try to achieve.

Mr. HORN. Let me ask you, now you have a large agency.

Mr. BOWSHER. Yes.

Mr. HORN. When reports are done analyzing the executive branch activities, how many layers do they go through of review?

I will give you an example, and maybe you can tell me. Under the law, you had to do an overall review of each of the base closure analyses as to how particular departments, in this case the Department of Defense, and Army, Navy, and Air Force under it. Did they carry out the law and were their review processes efficient and effective and did they make sense? And you just filed that report, which usually comes out about the time of their recommendations or when they begin hearings on their recommendations. How many layers did that go through within GAO?

Mr. BOWSHER. Our typical report first gets reviewed by the issue area director, who is the SES person in charge of that issue area. Then the leadership of the division—in this case our defense division—would look at the report which is generally done concurrently by the head of the division and what we call the "P and R" director—the senior review authority in that area. Then myself and maybe my deputy up there at the top would look at it, too. We do a lot of that on a concurrent basis, but we get four or five people taking a look before a report like that would go out.

Mr. HORN. Who are in a supervisory layer in the reporting line?

Mr. BOWSHER. That's correct, yes.

Mr. HORN. Did anybody in the immediate Office of the Comptroller General look at that report?

Mr. BOWSHER. Yes.

Mr. HORN. Who all reviewed it in your office?

Mr. BOWSHER. Well, Dexter Peach. He's my Assistant Comptroller General for planning and reporting, and then myself.

Mr. HORN. Did you have a chance to read the whole report?

Mr. BOWSHER. Yes, I did.

Mr. HORN. What's your reaction to that report? Do you think it did the job that Congress expected it to do?

Mr. BOWSHER. I think it did. Now, I know that you have some concerns about the particular——

Mr. HORN. Well, I've got another concern that you had written a separate report on that, but I am now talking about the general one, that just examines all the services as to what their processes were and makes what we would like to think was an objective certification that they have done what they were asked to do.

Mr. BOWSHER. No, I believe that that's what we have done. I know that sometimes there are feelings the services or the people in OSD did something that maybe wasn't totally objective, you might say. Sometimes it is hard to find evidence to support those kinds of situations.

Mr. HORN. Do we run a duplicate analysis of the system when they use a particular statistical system to get their base data? Does GAO say, "Let's test that, let's see if you have self-fulfilling prophecies in there and you are simply gathering numbers to try and prove your point when you have no analysis?" Do we ever look at a detail of their analysis, and does it make logical sense or common sense in the process?

Mr. BOWSHER. I think we do. Whether we did it on all the analyses that they did, I am not sure about that. I would have to go back and check on that.

Mr. HORN. Well, just to whet your appetite, I have looked at that report. I think it could have been written before anybody went over to analyze it. It was descriptive in nature, not analytical in nature. It doesn't seem to test the systems.

I am thinking of the Navy now, in which I have a little interest, I will grant you, as to some of their misguided decisions. But what bothered me was that here the agent of the legislative branch doesn't take an objective analysis and say whether this is accurate not just describe the process, because we already know that.

The question is, did the process make common sense? That we still don't know, and the GAO report hasn't been helpful in telling us that because there is no depth to it, and that's what concerns me. So I just wanted to use that example because it has recently passed my desk. I think whether I read an executive branch report, or a legislative branch report, we have got to have critical analysis, and that is what we count on you to have.

Mr. BOWSHER. I agree with that.

Mr. HORN. That's why I'm bothered that it went through all these layers. Are they just reading it with the TV on or were they really looking at it and asking some tough questions?

I wish you as Comptroller General would go back and reread that report and say if you were the executive, the Secretary of Defense in this case, and more important the President of the United States, would you have faith in that process? And you know if you can find somewhere where there is a true analysis of the process, I would like to have it pointed out to me because I have missed it and I don't see it. And if I were President I would be outraged, but I am not President, I am just outraged.

So I would take a careful look at it, and relook at it, and look at it in relation to past reports because we need some objective analysis of that type of executive agency decisionmaking process. It doesn't matter what decision they came out with; was the process

by which they reached that decision adequate? Did it come to the conclusions and are there supporting evidence back of them, or again might we have just locked them in a room for 3 hours and said, "Make some decisions and don't pretend you have a process," because my impression is they have got a process and they didn't follow it. So that fascinates me and I will obviously continue that inquiry because I am irked at it.

Now, let me ask you in general here: in your opinion, are there other management problems crucial to improve Federal management that NPR has ignored, and if so, what are they?

Mr. BOWSHER. I think the big areas were the high-risk ones that I have already mentioned as part of my testimony. And I think there are some issues in the systems area. In other words, I think you have some major computer systems going on in the government at any one time, and some of these are very crucial to the operations of these departments. I think that they were not as well integrated into the NPR process as they could be.

Mr. HORN. OK. The gentleman from Illinois, Mr. Flanagan, the vice chairman, has 5 minutes.

Mr. FLANAGAN. Thank you, Mr. Chairman.

Mr. HORN. Or 10.

Mr. FLANAGAN. Five will do nicely, probably not even that much.

Thank you Mr. Bowsher, for coming in today and talking to us. Your testimony has been very frank.

The fact that we are having an NPR at all indicates that we are not exactly sure how government works, at least not to the level of specificity that we would require to make it better. Consequently, it is a fair question to ask if, in your opinion, the agencies themselves are capable of capturing and recording the data needed to accurately measure waste and duplication and whatnot?

Mr. BOWSHER. Could you repeat the last part of the question?

Mr. FLANAGAN. Are the agencies capable of providing the information which you would need to specifically evaluate the areas of waste duplication or whatnot?

Mr. BOWSHER. They are sometimes and sometimes they are not. That's one of our real problems in doing our work lots of times, is whether the information and the data is really there to analyze. What we find as we do these reviews is a mixture—sometimes it's there and sometimes it isn't, and that is a problem. That's why I think it is important that this committee speak to how important it is for the agencies to develop the milestones, the benchmarks, and just the data that you need to know whether you are on a successful track or not.

Mr. FLANAGAN. Do you think it is possible when weighing against the traditional governmental functions which provide information and work for a systematic system by which the elected bodies, the Congress, can provide benefits through an agency, with which the President can provide information to the people through an agency? Do you think that looking at it on a customer-provider basis is really the proper model?

Mr. BOWSHER. Well, I think the customer basis is one of the proper models.

Mr. FLANAGAN. Namely, a customer is one who enters into a simple contract with a purchaser to acquire something or to sell something.

Mr. BOWSHER. Yes.

Mr. FLANAGAN. I am wondering if we are approaching this correctly just in the overall way, and I wonder if the approach that we are taking naturally and systematically results in the inability to collect the information that we need to evaluate whether it is doing well. It is the classic case if you ask the wrong question, you are not going to get the right answer, and I wonder if we are approaching this problem right.

Mr. BOWSHER. I think the customer-based orientation is one of the things that most of the organizations that are trying to improve their operations in both the private sector and the public sector have come to believe is important to have that focus, and even the quality management people also generally talk about the internal customer. In other words, are the overhead departments or the administrative departments like the personnel or the accounting department servicing the needs of the people on the line? Because that's their internal customer. So what you are trying to do is get a government that is more responsive to how they deliver the services and how they deliver the programs both to the American taxpayer but also within themselves in that.

And I think part of your earlier question was whether the executive branch views Congress as a customer. I think that is important. In other words, I think the executive branch should have information available to the Congress at any time on any subject. I think lots of times in the past they have failed to be able to produce that kind of information, and that has led to some of the mistrust and some of the micromanagement that has developed, unfortunately, as a result of not having it.

Mr. FLANAGAN. Perhaps you could just take a minute and expound a little bit more on your opinion of the changes that need to occur in the agencies to enact them to develop reliable programmatic and financial information that they need; to develop, implement, and evaluate the proposals; and perhaps in the course of answering you could describe the reasons why the GAO had insufficient information to comment on 86 of some such recommendations from the executive departments?

And I don't ask the question in a blame-laying way. I refer you back to the previous questions that we might not be approaching this exactly the way it needs to be done to get a good result.

Mr. BOWSHER. I think most of the time when we could not comment we had not done work in that area.

Mr. DODARO. That was part of it, Congressman. The other part of it was that the proposals themselves were not quite specific enough for us to understand exactly what was being proposed. So in those cases, the reason we couldn't comment was due to that.

I think your point about the reliability of financial data is a very good one. We have been trying to work very, very hard through implementation of the Chief Financial Officers Act to get more reliable financial information and cost data from the agencies. Right now most of the agencies cannot pass the test of an independent audit so you have no assurance that the information that's being

provided to the Congress, to the customers, to the citizens, to anybody is really a reliable portrayal of exactly what was spent for that particular program or activity.

That also impairs the ability to judge the cost of various government programs and performance. You have little reliable information on performance measures themselves in terms of gauging performance measures. So that is one area where we think that the underpinnings of a good management structure need to be put in place to run the government, whether it is being run under an NPR proposal or some other type of management reform effort. The guts of good information is not there and needs to really be worked on.

Mr. FLANAGAN. The fact that it is not there leads me somewhat to believe not that they are hiding anything or don't want to provide it; it is that they are incapable to provide it in the way that we are asking for it. And I wonder if that is part of the systemic problem we are trying to fix or we are trying to do something that cannot be done and that question continues to pervade as we go through this.

Thank you, Mr. Chairman.

Mr. HORN. Thank you very much for those helpful questions.

I would like to yield to the chairman of the full committee, Mr. Clinger of Pennsylvania.

Mr. CLINGER. Thank you very much, Mr. Chairman.

Mr. Bowsher, always a pleasure to see you. Unfortunately, I have not had a chance to read your testimony and I apologize for not having been present for it to hear your oral statement, but I just had a general thought I wanted to get your reaction to.

I have been around as you have for a fairly long time, and I have observed that we go through these cycles of reform and regeneration and whether it is management by objectives or zero-based budgeting or NPR, we have had—almost every new administration has a new idea about how to go about reforming and making government more effective—and yet we never seem to solve the problem. We are continually going through the process and somehow we never really do get to the bottom line.

The thing that I am wondering about if we are judging productivity in the private sector, we judge it by the bottom line. What is your productivity? How much money is your firm making? How many people are you using to do that with?

It is harder to do that in government, and yet it seems to me that a lot of what we have done in the past has been process oriented and not productivity oriented. We have really been focused on how efficiently we are carrying out the process, how efficiently we are meeting the requirements of process to do this, and perhaps too little emphasis has been given to the—what should be I think the crux of our examination, which is, how do we make this government more productive.

It gets to be a very difficult area, it seems to me, because you are talking about making it more productive. Obviously one approach is, we will just cut funding and sort of the meat-ax approach to this thing and say we are just going to cut everybody back, across-the-board cuts, and make them do the same job for less money. That doesn't really answer the question. I would really

like to get your views on how we can measure productivity more effectively? How we can perhaps really accomplish what we all want to accomplish, which is to make this as efficient a government but as productive a government as it can be?

Mr. BOWSHER. I think what you need is an annual report from the 24 largest agencies in the government, which lines up with the CFO Act. And I think you need an annual congressional oversight hearing as to how well each of the agencies is doing against the results-oriented indicators that they should come up with. They should say, "This is what we think we should be producing, this is what kind of results we should be achieving," and each year it should be reported.

I think it should be reported to the Congress, I think there should be a hearing, and I think GAO or some organization like us should review that information and audit it, you might say, and report as to whether they have achieved their goals or not.

And sometimes, as Mr. Flanagan's questions indicate, in the first couple of years you are going to be hearing that they don't have the data to tell whether they have achieved their goals or not. But are they getting there? Are they getting to the point where they can have, let's say, a clean certificate on their financial information that they are sending up to you?

So I think some combination of an annual oversight hearing by Congress and an annual report by the head of the agency is needed. The data should be produced ahead of time as to what are they going to try to achieve and some audits should be done of that. If you've got that going on a concurrent basis, whether the Republicans or the Democrats are in the White House, if the Congress would do that, on a continuing basis, I think then you'd start to get into a management structure that people would start to pay attention to.

Right now one of the big problems is that people don't pay attention a lot of times to these reform efforts because it doesn't look like it will continue. Or they say that maybe it won't continue, like a lot of them haven't, and I think you've got to overcome that situation.

Let me ask Nye to respond.

Mr. STEVENS. The legislative underpinning in such an effort is the Government Performance and Results Act, which extends from the previous administration. That act really provides the basis for what the Comptroller General is talking about: defining agencies' missions in terms of outcomes rather than processes and outputs.

And second, I think the NPR deserves some credit for not having abandoned that initiative even though it was inherited from the previous administration. One of the NPR recommendations is to proceed forthwith and really go full scale into implementation of GPRA, and that is to be commended. Very often, as you know, reformers come in and they try to wipe out everything they find rather than pick some of the most beneficial parts.

Mr. CLINGER. I think that has been one of the most encouraging things that we do see is there has been a continuation of emphasis on that act as a way to achieve what we are all trying to achieve. I allude to the fact that we tend to go through cycles, but in FAA every time you turn around there is a new director of FAA and new

management procedure and then he goes and some new provision comes in, we are going to put it in the region, then we are going to bring it back into Washington, and there has been so much churning administratively that we don't get the results.

I am also pleased and I gather you are saying that the Chief Financial Officer Act and the Chief Financial Officers have to play a very key role in setting what those benchmarks are and setting what those standards are and in providing the data to permit a really good evaluation of how they are performing. Not just whether they are meeting the process. How do you think the implementation of the Chief Financial Officers Act is going considering it is relatively new legislation? Which I frankly felt for some time was not getting the attention that it deserved.

Mr. BOWSHER. I think it got off to a very slow start when it was first enacted, but they are starting to have some good CFO officers in there and I think in some of the departments we're seeing some real progress. But there is still quite a long way to go. Gene is in charge of it. I think that the CFO Act is crucial to getting accountability in government and the trust of the American taxpayer.

Mr. CLINGER. Thank you.

Mr. DODARO. Congressman, the act is making some progress. I think Chuck is right, we've seen some talented, experienced people come into the government to take some of these CFO positions, which is encouraging. I think that there has been renewed focus on it.

The Government Management Reform Act last year, which made the requirements of the CFO Act permanent and required for all the 24 agencies to have an annual financial audit, will make a big difference. That will ensure continuity and will ensure attention to it.

On the downside, there is a long way to go to have good financial systems in the government. Many of them are antiquated, don't produce, or were never set up for financial reporting purposes so there needs to be modernization of the financial systems. There needs to be a better focus on putting cost accounting systems in place and integrating the cost accounting performance data with budget processes, which is another key goal of the act.

And finally, there needs to be some additional focus on the qualifications of the people below the Chief Financial Officers in the organization, people with systems talent, performance measurement skills, and a broader range of skills to really have the right infrastructure in place.

We've seen a number of agencies really struggle to try to overcome basically about 30 or 40 years of inattention to financial management when it was sort of an administrative backwater in the agency. So it is taking great effort now to really turn that around.

The annual audits are getting a lot of focus because you have a public score card there. You have a bottom line. You either have a reliable set of financial statements or you do not, and most agencies now do not. The annual requirement and disclosure will motivate them to make a lot more changes and improvements.

And if that could be coupled with the oversight of the Congress looking and asking, "Why don't you have reliable information?" In some cases it's just because they have not done routine financial

procedures, they haven't reconciled with Treasury balances, they haven't kept documentation, some of it is pretty simple. But that oversight would force them to really get their act together and produce good information, because right now it's not reliable and there is not a lot of credibility that can be placed in most agencies' financial or programmatic data as a result.

Mr. CLINGER. Thank you very much, gentlemen, for your testimony.

Mr. HORN. I think those are excellent suggestions that you've made. Mr. Dodaro and the Comptroller General made a few of them earlier.

I am well aware of your reports on the Chief Financial Officers situation. What I'd like you to do is see if you can name a few other reports here and then fill it out for the record in a statement.

I would like to know along the line that you commented on the degree to which the General Accounting Office has filed those reports with Congress. And I would like in general to ask, Mr. Bowsher, what percentage of GAO reports are internally generated rather than requested by Members of Congress or a committee?

[The information referred to follows:]

CPO ACT RELATED PRODUCTS

Report Title	Report Number	Date Issued
CIVIL DEPARTMENTS AND AGENCIES		
Internal Revenue Services:		
Financial Audit: Examination of IRS' Fiscal Year 1993 Financial Statements	AIMD-94-120	06/15/94
IRS Corrective Actions	AIMD-94-184R	09/12/94
Financial Management: IRS Does Not Adequately Manage Its Operating Funds	AIMD-94-33	02/09/94
Financial Management: IRS' Self-Assessment of Its Internal Control and Accounting Systems Is Inadequate	AIMD-94-2	10/13/93
Financial Management: First Financial Audit of IRS and Customs Revealed Serious Problems	T-AIMD-93-3	08/04/93
Financial Audit: Examination of IRS' Fiscal Year 1992 Financial Statements	AIMD-93-2	06/30/93
Financial Audit: IRS Significantly Overstated Its Accounts Receivable Balance	AFMD-93-42	05/06/93
Financial Management: IRS Lacks Accountability Over Its ADP Resources	AIMD-93-24	08/05/93
Financial Management: Important IRS Revenue Information Is Unavailable or Unreliable	AIMD-94-22	12/21/93
IRS Information Systems: Weaknesses Increase Risk of Fraud and Impair Reliability of Management Information	AIMD-93-34	09/22/93
Observations on IRS' Performance Indicators	AFMD-93-23R	11/05/92
IRS Systems Security: Progress Made to Secure Taxpayer Data But Serious Risk of Improper Access Remains (Limited Official Use only - a copy can be made available upon request.)	AIMD-95-17	12/27/94
Customs:		
Financial Audit: Examination of Customs' Fiscal Year 1993 Financial Statements	AIMD-94-119	06/15/94
Financial Management: Control Weaknesses Limited Customs' Ability to Ensure That Duties Were Properly Assess	AIMD-94-38	03/07/94
Financial Management: Customs' Accounting for Budgetary Resources Was Inadequate	AIMD-94-23	12/14/93
Financial Management: Customs' Accountability for Seized Property and Special Operation Advances Was Weak	AIMD-94-6	11/22/93
Financial Management: Customs Did Not Adequately Account For or Control Its Accounts Receivable	AIMD-94-5	11/08/93
Financial Management: Customs' Self-Assessment of Its Internal Control and Accounting Systems Is Inadequate	AIMD-94-8	10/27/93
Financial Management: First Financial Audit of Customs Revealed Serious Problems	T-AIMD-94-3	10/05/93
Financial Management: Customs Lacks Adequate Accountability Over Its Property and Weapons	AIMD-94-1	10/18/93
Financial Audit: Examination of Customs' Fiscal Year 1992 Financial Statements	AIMD-93-3	06/30/93

CPO ACT RELATED PRODUCTS—Continued

Report Title	Report Number	Date Issued
Financial Audit: Customs Forfeiture Fund's Financial Statements for 1991 and 1990	AFMD-93-55	05/13/93
Customs Service Performance Indicators	AFMD-93-47R	03/10/93
Financial Management: Customs Needs to Establish Adequate Accountability and Control Over Its Resources	AFMD-92-30	08/25/92
Financial Management: Customs' Controls Over Sensitive Computer Programs and Data Were Weak (Limited Official Use only - a copy can be made available upon request.)	AIMD-94-140	07/12/94
Education:		
Financial Audit: Federal Family Education Loan Program's Financial Statements for Fiscal Years 1993 and 1992	AIMD-94-131	06/30/94
Financial Audit: Federal Family Education Loan Program's Financial Statements for Fiscal Year 1992	AIMD-93-4	06/30/93
Financial Audit: Guaranteed Student Loan Program's Internal Controls and Structure Need Improvement	AFMD-93-20	03/16/93
Student Loan Insurance Fund Interim Management Letter for FY 1991	AFMD-92-26ML	01/31/92
Student Loan Insurance Fund Management Letter for FY 1990	AFMD-91-53ML	04/12/91
GOVERNMENT CORPORATIONS		
Federal Deposit Insurance Corporation:		
Financial Audit: Federal Deposit Insurance Corporation's 1994 and 1993 Financial Statements	AIMD-95-102	03/31/95
Financial Audit: Federal Deposit Insurance Corporation's 1993 and 1992 Financial Statements	AIMD-94-135	06/24/94
Financial Audit: Federal Deposit Insurance Corporation's Internal Controls as of December 31, 1992	AIMD-94-35	02/04/94
FDIC Letter - security controls (Limited Official Use only - a copy can be made available upon request.)	AIMD-94-186ML	08/29/94
FDIC Management Letter as of December 31, 1993	AIMD-94-160ML	08/29/94
FDIC Management Letter	AIMD-94-30ML	01/24/94
Financial Audit: Federal Deposit Insurance Corporation's 1992 and 1991 Financial Statements	AIMD-93-5	06/30/93
Financial Audit: Bank Insurance Funds 1991 and 1990 Financial Statements	AFMD-92-73	06/30/92
Financial Audit: Bank Insurance Fund's 1990 and 1989 Financial Statements	AFMD-92-24	11/12/91
Financial Audit: Savings Association Insurance Fund's 1991 and 1990 Financial Statements	AFMD-92-72	06/30/92
Financial Audit: Savings Association Insurance Fund's 1990 and 1989 Financial Statements	AFMD-92-21	01/08/92
Financial Audit: Savings Association Insurance Fund's 1989 Financial Statements	AFMD-91-31	03/01/91
Financial Audit: FSLIC Resolution Fund's 1991 and 1990 Financial Statements	AFMD-92-75	06/30/92
Financial Audit: FSLIC Resolution Fund's 1990 and 1989 Financial Statements	AFMD-92-22	12/17/91
Financial Audit: FSLIC Resolution Fund's 1989 Financial Statements	AFMD-91-69	08/02/91
Resolution Trust Corporation:		
Financial Audit: Resolution Trust Corporation's 1993 and 1992 Financial Statements	AIMD-94-148	06/27/94
Resolution Trust Corporation Management Letter for 1993	AIMD-94-181ML	08/30/94
Financial Audit: Resolution Trust Corporation's 1992 and 1991 Financial Statements	AIMD-93-6	06/30/93
Financial Audit: Resolution Trust Corporation's Internal Controls at December 31, 1992	AIMD-93-50	09/28/93
Financial Audit: Resolution Trust Corporation's 1991 and 1990 Financial Statements	AFMD-92-74	06/30/92
Resolution Trust Corporation Management Letter for the Year Ended December 31, 1991	AFMD-92-90ML	08/14/92
Financial Audit: Resolution Trust Corporation's 1990 Financial Statements	AFMD-92-20	10/25/91
Financial Audit: Resolution Trust Corporation's 1989 Financial Statements	AFMD-91-57	04/04/91
Pension Benefit Guaranty Corporation:		
Financial Audit: Pension Benefit Guaranty Corporation's 1994 and 1993 Financial Statements	AIMD-95-83	03/08/95
Financial Audit: Pension Benefit Guaranty Corporation's 1993 and 1992 Financial Statements	AIMD-94-109	05/04/94
Pension Benefit Guaranty Corporation Management Letter for Fiscal Year 1993	AIMD-94-168ML	08/29/94
Financial Audit: Pension Benefit Guaranty Corporation's 1992 and 1991 Financial Statements	AIMD-93-21	09/29/93

CPO ACT RELATED PRODUCTS—Continued

Report Title	Report Number	Date Issued
Financial Audit: Pension Benefit Guaranty Corporation's 1991 and 1990 Financial Statements	AFMD-92-35	03/02/92
Financial Audit: System and Control Problems Further Weaken the Pension Benefit Guaranty Fund	AFMD-92-1	11/13/91
Financial Audit: Disclaimer of an Opinion on PBGC's Financial Statements for Fiscal Year 19902	AFMD-91-48	01/25/91
Miscellaneous Corporations:		
Financial Audit: Federal Financing Bank's 1993 and 1992 Financial Statements	AIMD-95-4	12/06/94
Financial Audit: Export Import Bank's 1990 and 1989 Financial Statements	AFMD-92-6	02/03/92
Financial Audit: Office of Thrift Supervision's 1989 Financial Statements	AFMD-92-11	01/24/92
Financial Audit: Resolution Funding Corporation's 1989 Financial Statements	AFMD-91-49	04/02/91
DEFENSE		
Army		
Financial Audit: Examination of Army's Financial Statements for Fiscal Years 1992 and 1991	AIMD-93-1	06/30/93
Financial Management: Strong Leadership Needed to Improve Army's Financial Accountability	AIMD-94-12	12/22/93
Financial Management: Army Real Property Accounting and Reporting Weaknesses Impede Management Decision-making	AIMD-94-9	11/02/93
Financial Management: Reliability of Weapon System Cost Reports Is Highly Questionable	AIMD-94-10	10/28/93
Financial Audit: Examination of the Army's Financial Statements for Fiscal Year 1991	AFMD-92-83	08/07/92
Army Aviation Systems Command Year-End Adjustments	AFMD-93-28R	12/23/92
Financial Audit: Weak Financial Accounting Controls Leave Commodity Command Assets Vulnerable to Misuse	AFMD-92-61	09/04/92
Financial Management: Immediate Actions Needed to Improve Army Financial Operations and Controls	AFMD-92-82	08/07/92
Financial Audit: Immediate Actions Needed to Improve Army Financial Operations and Controls	T-AFMD-92-14	08/07/92
Air Force:		
Financial Audit: Aggressive Actions Needed for Air Force to Meet Objectives of the CFO Act	AFMD-92-12	02/19/92
Financial Audit: Status of Air Force Actions to Correct Deficiencies in Financial Management Systems	AFMD-91-55	05/16/91
Financial Audit: Financial Reporting and Internal Controls at the Air Logistics Center	AFMD-91-34	04/05/91
Financial Audit: Financial Reporting and Internal Controls at the Air Force Systems Command	AFMD-91-22	01/23/91
Navy:		
Navy Financial Reports	AIMD-94-166R	08/11/94
Other Defense:		
Financial Management: DOD Has Not Responded Effectively to Serious, Long-standing Problems	T-AIMD-93-1	07/01/93
DOD's FMFIA Assertions	AFMD-93-61R	04/27/93
NASA FMFIA Assertions and CFO Plan	AFMD-93-65R	06/11/93
Defense Finance and Accounting Service	AFMD-92-116R	08/25/92
Note: Copies of 37 management letters to various commands/bases providing suggestions for internal control improvements are available upon request. If copies are desired, call 512-3423.		
OVERALL ASSESSMENTS		
GAO High-Risk Series	HR-95-1 thru HR-95-17	2/95
OMB's High-Risk Program: Comments on the Status Reported in the President's Fiscal Year 1995 Budget	AIMD-94-136	09/20/94
GAO High-Risk Program	AIMD-94-72R	01/27/94
Financial Management: CFO Act Is Achieving Meaningful Progress	T-AIMD-94-149	06/21/94
Government Corporations: CFO Act Management Reporting Could Be Enhanced	AIMD-94-73	09/19/94
Financial Management: Status of CFO Act Implementation at the Department of Commerce	T-AIMD-94-150	06/28/94
Financial Audits: CFO Implementation at IRS and Customs	T-AIMD-94-164	07/28/94
Financial Management: Status of CFO Act at the Department of the Treasury	T-AIMD-94-157	07/13/94

CPO ACT RELATED PRODUCTS—Continued

Report Title	Report Number	Date Issued
Financial Management: Financial Control and System Weaknesses Continue to Waste DOD Resources and Undermine Operations	T-AIMD/NSIAD-94-154	04/12/94
Improving Government: GAO's Views on H.R. 3400 Management Initiatives	T-AIMD/GGD-94-97	02/23/94
Improving Government: Actions Needed to Sustain and Enhance Management Reforms	T-OCG-94-1	01/27/94
Major Issues Facing a New Congress and a New Administration	T-OCG-93-1	01/08/93
GAO High-Risk Series	HR-93-1 thru HR-93-12	12/93
Government Management - Report on 17 High-Risk Areas	T-OCG-93-2	01/08/93
OMB's High Risk Program: Benefits Found But Greater Oversight Needed	AFMD-92-63	08/06/92
Financial Audit: Aggressive Actions Needed for Air Force to Meet Objectives of the CFO Act	T-AFMD-92-5	02/19/92
Government Management: Major Issues Facing the Congress	T-AFMD-92-4	02/06/92
Financial Management: Factors VA Needs to Consider in Implementing the Chief Financial Officers Act of 1990	AFMD-91-37	07/23/91
The Chief Financial Officers Act: A Mandate for Federal Financial Management Reform	AFMD-12.19.4	09/30/91
Government Management: Status of Progress in Correcting Selected High-Risk Areas	T-AFMD-93-1	02/03/93
Bank and Thrift Regulation: FDICIA Safety and Soundness Reforms Needed to Be Maintained	T-AIMD-93-5	09/23/93
Condition of the Bank Insurance Fund: Outlook Affected by Economic, Accounting, and Regulatory Issues	T-AFMD-92-10	06/09/92

Mr. HORN. How much initiative are we taking here to deal with that cost accounting system? I know you have done a great job on the Chief Financial Officer Act. We are going to hold those oversight hearings. We held them in the last Congress, and we are going to be holding them every Congress that I think any of us here have anything to do with.

What about those other areas that you are talking about? Have we taken the initiative and laid that out for the Congress? Are you not just laying it out once but are you keeping after it?

Mr. DODARO. I might point out, Mr. Chairman, in the CFO Act, for example, we are right now under the pilot legislation that was put in place in 1990. We took on some of the more difficult financial audits ourselves. For example, we are in the third year now of auditing the Internal Revenue Service. And we are about ready to release our third audit opinion later this month. So we are maintaining continuity there.

Now, that audit is covering not only the $7 billion or so that IRS uses to run its own operation but it is covering the $1.3 trillion that they collect on behalf of the Federal Government. So we have done that. We have audited the Customs Service back in 1992 and 1993. We have now turned that over to the Department of Treasury Inspector General. They are continuing with that audit requirement. We have done audits of the Air Force and the Army. We did those for 2 years and then turned them over to the Air Force and Army audit services and we are reviewing their work.

We are beginning the first-ever audit of the Department of the Navy. We have also conducted financial audits of the student loan insurance fund program for 2 years. We have now turned that over to the Department of Education IG. We audit the bank insurance fund the FDIC fund every year. We have audited for the last 2 years the Pension Benefit Guaranty Corporation. We are in the process of turning that audit now over to the IG in at PBGC. We

have audited the Resolution Trust Corporation for several years now. We are continuing to do that.

We have focused our efforts on the Department of Treasury because of its central function and the Department of Defense because of their large expenditures and then focused on high-risk areas across the government. We have tried to train the Inspector Generals to take over those audits because they have primary responsibility now to do the annual audits and GAO will be relying on their work, plus doing our own work, to audit the government's own consolidated statements.

As we move to turn those audits over, we are also beginning to establish a program to go in and look at what extent the CFO Act has achieved its other objectives, the cost accounting systems, for example, the people qualifications issue. And we are just now freeing up some resources to be able to try to go and try and do that.

We have concentrated a lot on getting these audits up and running for the first time and to try to stay with it, as you are pointing out, to make sure we come in year after year after year and make sure the auditing is done in a good manner.

Mr. HORN. In the last Congress a subcommittee of the full committee looked at Medicaid fraud and abuse in New York. Do you have major studies underway on both Medicare and Medicaid fraud? Because there seems to be billions out there.

Mr. BOWSHER. There are lots of problems in those areas and we do have jobs going on most of the time in those areas to work on those type of programs.

Mr. HORN. Do we have enough so we can turn them over to the U.S. Attorney in an area? And if not, why not?

Mr. BOWSHER. We have turned some over. Our investigative group is very small, Mr. Chairman. So we have used them in the two or three areas where we thought the greatest potential was. One was in the health care area. One was in the financial institutions when we had the S&L crisis but we probably can only report on a very limited number of problem areas there because of our limitation on staff.

Mr. HORN. Who determined that you would have a small investigative staff, the Congress or you?

Mr. BOWSHER. Well, basically the Congress, and the fact that we have been under these budget restrictions here in recent years.

Mr. HORN. How many do you have on the investigative staff who are field investigators that can go out and cover some of these issues?

Mr. BOWSHER. We probably have about 25.

Mr. HORN. How many did you have 10 years ago?

Mr. BOWSHER. We didn't have any 10 years ago. We started it about 10 years ago.

Mr. HORN. Well, I can remember 30 or 40 years ago the GAO was conducting a lot of investigations.

Mr. BOWSHER. That's right. Yes. We went out of the business sometime after that period. When I came into office, both the Congress and myself thought it was worthwhile to get back into the business in some of these areas. I think our group has done quite well on some of the things, but it is a small group.

Mr. HORN. In your budget to the Congress for the GAO, have you asked for additional investigators?

Mr. BOWSHER. We did up until 1992, but since 1992, we have been under budget pressure, so we haven't asked for any additional people.

Mr. HORN. Do you have the authority to reprogram and reassign positions within the agency if you cleared it with the relevant congressional committees?

Mr. BOWSHER. We do. I might point out that Gene has reminded me that the IG's functions were formalized in 1978, and so they do much of this work. A lot of their staff are investigators and so much of the investigation work is done by them today, whereas in the old days—in the 1950's and 1960's—GAO did that work.

Mr. HORN. Do we have a series of studies going on as to the effectiveness of the Inspector Generals?

Mr. BOWSHER. We have reported on the effectiveness of the IGs from time to time.

Mr. HORN. Well, is there a systematic way to report on what they are doing as we report on Chief Financial Officers?

Mr. BOWSHER. We have done it just periodically. We have not done it systematically as we have with the CFOs.

Mr. HORN. Now, if they are the ones you are counting on to do the basic investigations and they have been around almost two decades, it would seem to me it is certainly appropriate that we include them in a similar type of oversight hearings of this committee, with reports by the GAO as a basis for that oversight hearing, as to their effectiveness.

I hear various things on IGs. Some are great, some aren't. You wonder if they are captives of the agency or antagonists of agency. Personally, I don't want either. I would just like to see some objective work done by the people that have the authority to do it.

Mr. BOWSHER. Let us give that some consideration and we will come back to you on that.

Mr. HORN. Any other questions by members of the committee?

Mr. BOWSHER. If I could raise one more point that we have not talked about that I probably should have added to one of my answers to you. I think that Congress and the executive branch have to work together on what I would call program simplification. In other words, right now as part of the Phase II of the NPR they are looking at missions and they are trying to sort out whether there are certain areas the agency shouldn't be involved in. But once you have decided that you should be in an area, then I think it is important that the laws and regulations underlying that program area are such that people can handle them in a reasonable way.

For example, when I went out and visited with some of the farmers some years ago while looking at some of the farm programs with my agricultural team, the farmers explained how they just couldn't understand the regulations coming out of the agricultural department, because they were so complicated. They were hoping their county executive could understand them. Well, the county executive at this place turned out to be a Reserve Navy captain who had just returned from the Gulf war, and he was a very able person. However, as he said, it practically takes a Philadelphia lawyer to understand the regs that have been coming out.

So what we have in government today is we have a lot of programs and lots of legislation and lots of regulations. It seems to me that one of the things that NPR ought to take on, working very closely with the Congress, because they will have to, is streamlining those programs to the point where they're systems and people working with the customer, that are doable. Right now we've got some of the areas so complicated they're hardly doable. I think that's an important part of it.

Mr. HORN. I think that's an excellent suggestion and that's one of the reasons this committee recommended, and the House passed, a moratorium on regulation because we ought to have a chance to sort this out.

Mr. BOWSHER. Right.

Mr. HORN. And it seems to me whether it be the NPR vehicle, GAO, or the various congressional committees, there is a unique opportunity here to ask the question of why. Why are we doing this? Why is it written this way? Can anybody understand it? And maybe get the idea in a focus group, which the politicians are so used to doing, be they in the White House or the Congress, and saying, "Read this and tell me what you make of it."

And when you said a Navy captain seemed to understand it, I can understand why when you've had 30 years of punishment in the Pentagon or in the field reading Pentagon regulations. Thank you for coming. I appreciate it.

The next panel is panel three: Tony Dale, Harkness Fellow, The Commonwealth Fund of New York; and Mr. Duncan Wyse, executive director of the Oregon Benchmarking Project.

Gentlemen, if you would come forward and raise your right hands.

[Witnesses sworn.]

Mr. HORN. Both witnesses have affirmed.

Please be seated. And, Mr. Dale, please begin.

STATEMENT OF TONY DALE, HARKNESS FELLOW, THE COMMONWEALTH FUND OF NEW YORK; AND DUNCAN WYSE, EXECUTIVE DIRECTOR, OREGON BENCHMARKING PROJECT

Mr. DALE. Thank you very much, Mr. Chairman.

Over the last decade or so successive New Zealand Governments have undertaken extensive reforms of the New Zealand public sector. This has included reform of the governance and financial management arrangements for; the trading activities of government; the core departmental sector; the education and health sectors, both of which are primarily funded from general taxation revenues; and local government.

My written testimony focuses on the trading activities and the core activities, and in these comments I would like to focus just on the departmental sector reform.

There were two major planks to that reform in New Zealand. The first was a structural reform whereby policy advice functions were separated out from service delivery functions. So, for example, in the environmental area, responsibility for advice to government on environmental issues and for managing regulatory issues became the responsibility of an environmental ministry, while a service delivery agency, the department of conservation, was established to

look after all the service delivery functions such as running the national parks, endangered species management and so forth. The primary purpose of those structural reforms was to provide much greater focus of objective, much greater clarity for the agencies about what their line of business is and where they should specialize their expertise.

The second and far more reaching reform was the public sector management reform which included financial management reform. That reform was far-reaching because it sought to fundamentally change the nature of the relationships between the agencies and the legislature and ministers and to significantly change the incentives that the agencies face in their day-to-day activities.

The key features of our new system that has been in place since about 1989/1990, is, first of all, that all departmental chief executives are appointed on limited term performance-based contracts, typically of about 5 years. They also have an annual agreement with their minister which specifies the performance that is expected of the chief executive and his or her agency for that year.

At the end of the year, the chief executive's performance is explicitly reviewed against the performance agreement that was established at the beginning of the year. Perhaps most fundamental of all has been the way we have defined performance in this new system. We have defined performance on the basis of outputs, goods and services, not on the basis of outcomes?

That has been driven by a view that it is impossible to hold an agency unambiguously accountable for the delivery of outcomes. So many things can influence outcomes that there is always an opportunity for an agency to say, "That's not my fault, I couldn't influence that, these things happen regardless of the things that we did."

On the other hand, they can be held accountable for the delivery of goods and services. And in my written testimony I've given the example of the police, where you can't necessarily hold the Commissioner of Police accountable for the rate of crime because so many things influence that. That's an outcome.

Some of the things that influence that might well be the things that the police did, but other things such as the state of the economy, the degree of unemployment, social factors, the family breakdown, maybe even a sports team result may well influence the crime rate.

On the other hand, you can hold the Commissioner of Police accountable for delivering policing services, for having particular policing services or particular investigatory services in place and so forth. That distinction has been very important.

So, too, has the integration of budgeting and accounting systems. The budgeting and accounting systems are based on outputs, not on line items, and this allows the legislature and ministers to make decisions on what will be produced and the price they are prepared to pay for it, and that in turn opens up all sorts of opportunities for benchmarking and price comparisons.

And finally, the other key feature of our system has been because we've had this unambiguous output accountability system, we have been able to delegate almost totally the management of inputs of line items to agencies. There are practically no line item controls

at all on departments. They can employ people as they wish, pay them what they wish, change the mix of capital and labor and other inputs as they see fit. The constraint is that they have to deliver their outputs in accordance with the price and the quality and the quantity measures that have been agreed.

There are some other features outlined in my testimony, but I think these aspects, Mr. Chairman, provides the basis of our system.

[The prepared statement of Mr. Dale follows:]

PREPARED STATEMENT OF TONY DALE, HARKNESS FELLOW, THE COMMONWEALTH FUND OF NEW YORK

INTRODUCTION

Thank you for the opportunity to take part in this hearing on the National Performance Review by providing some insight into New Zealand's experience with government reorganization.

Over the last decade successive New Zealand governments have undertaken extensive reforms of the New Zealand public sector. This has included reform of governance and financial management arrangements for:

- the trading activities of government;
- the "core" (departmental) public sector;
- the education and health sectors, both of which are primarily funded from general taxation revenues;
- local government.

My testimony today will focus on the first two of these reforms.

ORIGINS OF NEW ZEALAND'S PUBLIC SECTOR REFORMS

The origins of New Zealand's public sector reform lie in the significant economic and fiscal problems the country faced in the 1980's.

In 1984 the newly elected Labour Government inherited an economy that was characterized by comprehensive controls on the financial sector, extensive subsidies for farmers and exporters, and a highly sheltered private sector. It also faced a significant financial deficit, growing levels of public debt, large current account deficits, high underlying inflationary pressures, and a history of slow economic growth.

The first plank of the Government's economic policy was to put in place a set of economic reforms designed to create an open, externally focused, internationally competitive economy. Over the remainder of the decade this involved reform of almost every sector of the economy.

However, in 1984 government expenditure (including transfers) accounted for around 40% of GDP. This meant that an economically inefficient public sector would drag down the performance of the economy as a whole. This realization led to the second economic policy plank: public sector reform.

The objective of public sector reform was to design a public sector management system(s) that created in a resource efficient public sector that was responsive to the strategic policy direction of government.

REFORM OF GOVERNMENT TRADING ACTIVITIES

Attention first focused on the numerous trading activities of government. These included banks, petroleum operations, telecommunication services, air traffic control systems, forestry operations, computer bureaus, electricity generation and distribution, and coal mining. Most of these activities were being run by government departments who also had policy advice responsibilities. Nearly all of them ran at a loss and required taxpayer support.

Corporatization

Reform initially took the form of corporatization - establishing these trading activities as government owned companies called State Owned Enterprises (SOEs).

The objectives of this policy were that the SOEs should:

- have clear, commercial objectives;
- operate in a competitively neutral environment;
- have greater managerial flexibility and authority over key decisions;
- be subject to greater performance monitoring;
- be funded by explicit grants to cover non-commercial objectives.

In practice this meant establishing SOEs under private sector company legislation, with private sector Boards of Directors and government Ministers as shareholders. SOEs were required to operate as profitably as comparable private sector companies, borrow from the financial markets and pay dividends and taxes at commercial rates.

They operate outside the government's normal budgetary and reporting processes but are required to agree a 5 year business plan with their shareholders each year and are subject to an extensive monitoring and reporting regime.

Regulatory reform proceeded in parallel with the SOE reform so that market competition was maximized.

The results of Corporatization have been dramatic. All SOEs now run as profitable businesses and pay substantial dividends and taxes. Service to customers has also improved dramatically.

Privatization

Although the corporatization process resulted in enormous efficiency gains, there are a number of reasons why an SOE is still a sub-optimal form:

- They tie up money that could be used to repay debt;
- They are not subject to the ultimate discipline of the market. Although SOEs trade in the debt market, there is a perception that some form of implicit government guarantee exists. Further, as SOE shares are not publicly traded an SOE is not subject to the ultimate efficiency discipline of the equity market:
- Governments are generally unwilling (or unable) to invest the amounts of capital needed by developing businesses, particularly high-tech businesses. Governments have other things to do with their money;
- Ownership of commercial ventures exposes governments to substantial fiscal risk. For example, in 1990 the Government had to fund a substantial rescue package to save the government-owned Bank of New Zealand.

For these reasons successive New Zealand governments have privatized commercial activities that they considered the government did not need to own. Major privatization have involved:

- financial institutions, including two trading banks, a merchant bank, a rural loan bank and a general insurance company;
- financial assets, including prime rate housing mortgages, and farm mortgages;
- transport operations, including a shipping company, an international airline, a railway company, and a bus network;
- infrastructural assets, including New Zealand's major telecommunications company and two computer companies.
- industrial operations, including a petroleum/petrochemical company and a part share in a steel company;
- other trading operations, including a hotel chain, the Government printer, and forests.

REFORM OF THE "CORE" PUBLIC SECTOR

Attention then turned to the "core" departmental public sector.

Separation of policy advice and service delivery functions

The first initiative was to separate policy advice and service delivery functions into separate agencies. For example in a reorganization of environmental activities:

- a new Ministry of the Environment was established to provide advice to government on environmental issues and manage regulatory and funding functions; while
- service delivery functions such as protecting endangered species and managing national parks were made the responsibility of the Department of Conservation.

The primary purpose of this structural reform was to create greater clarity of objective. It allowed:

- policy advice agencies to focus on assessing outcome achievement and developing policy prescriptions for improving outcomes; and
- service delivery agencies to focus on running their operations as efficiently as possible, given the policy parameters established by the Government.

It has the added advantage of reducing the opportunity for producer capture, whereby policy advice is (deliberately or otherwise) biased in favor of interventions managed by the agency concerned.

Public Sector Management Reform

The second reform of the core public sector was even more fundamental. It sought to redefine the nature of the accountability relationships between government Ministers and their departments and to improve the incentives on departmental managers to respond to the government's policy priorities.

The key features of the new public sector management system are:

- appointment of departmental chief executives on limited-term, performance based contracts;
- annual agreements between Ministers and their chief executives specifying the performance expected of the chief executive;
- annual assessment of chief executive performance against the agreement established at the beginning of the year;
- defining performance in terms of the things the chief executive can be held accountable to deliver i.e. outputs NOT outcomes;
- recognition that as well as being a purchaser of a department's outputs (goods and services) the government is also owner and that good "ownership" performance (i.e. the best possible return on resources) is also a key dimension of chief executive performance;
- a budgeting and appropriation system which allows Ministers to make decisions about the outputs to be delivered and the price/cost of those outputs rather than input line items;
- the near total delegation of input control to chief executives, including personnel levels and rates of remuneration, and the mix of labor, capital and various operating items;
- the use of accrual accounting to measure the true cost of departmental operations and their assets and liabilities rather than just the cash flows for the year;
- regular ex post reporting that mirrors the budgeting reporting at both departmental and whole of government level.

Outputs vs. Outcomes

A key distinction in the New Zealand system is that made between outputs and outcomes.

The distinction has proved useful in a number of ways:

- It is has allowed enhanced departmental accountability. For example it is not possible to hold the Commissioner of Police accountable for the crime rate because it is influenced by many factors outside his or her control, such as unemployment, family conditions, perhaps even the weather or lack of success of a sports team. On the other hand it is possible to hold the Commissioner unambiguously accountable for the delivery of outputs such as policing services and crime prevention programs;
- As a result of this unambiguous accountability it has allowed the near total delegation of input control to departmental managers. This has resulted in reinvigorated, innovative management and substantial efficiency gains;
- It has made clear (for the first time) what goods and services the Government is actually buying from its departments and agencies and the cost of those service. This has raised questions about why some of these goods and services are being produced at all by the government and/or why they cost what they do;
- It has allowed greater contestability between suppliers of similar goods and services and/or price benchmarking. This creates ongoing pressures to improve departmental efficiency;
- An outputs focus provides a set of budgetary levers that allow significant expenditure reduction with a reasonable understanding of the service delivery impact i.e. expenditure cuts are made by reducing th4e quantity or quality of outputs purchased from agencies;
- It has made elected representatives not bureaucrats responsible for determining outcome priorities and the output/regulatory intervention mix to achieve them (both of which require a series of value judgments to be made);
- It has highlighted the severe technical difficulty in establishing causality between outcomes and interventions (outputs, transfers or regulatory interventions). This has helped focus the policy advice function on assessing outcome achievement and causal factors;
- It has ensured that the whole public sector management system does not get sidetracked by the severe technical difficulty of measuring outcome achievement.

This distinction does not mean that no attention is being paid to outcomes. Quite the opposite - it has resulted in much greater focus on what outcomes the government wants to achieve and alternative ways to achieve them.

Integration of Budgeting and Accounting systems

A second important aspect of the New Zealand approach is the integration of the budgeting and accounting systems. The budget is prepared using the same set of accounting rules used to prepare ex post reports (generally accepted accounting practice.)

This provides a strong reporting feedback loop, essential for good accountability. Because generally accepted accounting practice is used to prepare the both the budget and the ex post Crown financial statements, these processes are relatively free from accounting gimmickry and manipulation.

CONCLUSION: THE IMPACT OF PUBLIC SECTOR REFORM

After a decade of economic reform, which included reform of the public sector, the results are now beginning to show through in good economic performance. Currently:

- economic growth (GDP) is running around 5-6% and it expected to settle at around 3-4% pa;
- inflation is around 1.5% pa and forecast to stay at levels less than 2%;
- government expenditure is forecast to drop from around 40% of GDP in the mid 1980's to around 30% in 1996/97;
- the fiscal position which was a deficit of around 9% of GDP in 1983/84 is now in surplus (on both a cash and accrual basis) and forecast to reach 7% of GDP by 1997/98;
- public debt is declining and projected to be around 17.5% of GDP by 30 June 1998 (down from a peak of around 60% of GDP in the late 1980s);

It is difficult to separate out the impact of the various reforms on this improved performance. However, it is widely accepted that such a dramatic turn around would have been unlikely without public sector reform.

This ends my formal testimony.

Mr. HORN. Thank you very much, Mr. Dale.

Your paper is really a fine paper that gives us a lot of ideas, and we're counting on this panel to provide not simply the foreign perspective that you have but the views of New Zealand, which is doing what a lot of us think ought to be done.

But we are delighted to have Mr. Wyse here from Oregon, and we've all heard about that benchmarking project. The States are truly, as Justice Brandeis said, real laboratories for the system of federalism. And now, Mr. Wyse, we would like to hear your exhibits on how things are working in Oregon.

Mr. WYSE. Thank you, Mr. Chairman.

My name is Duncan Wyse. I am the executive director of the Oregon Progress Board.

I'd like to offer three points to the committee today. The first is that if we are going to reinvent government at the Federal level, we really have to think about federalism. That's because most of the Federal agenda is actually delivered by State and local governments, not the Federal agencies themselves.

The second point I would like to make is that the system is broken. The National Performance Review recognized that. I think that there is a wide recognition that the intergovernmental system doesn't work and that it needs reform.

And the third and final point is if we are going to reinvent that system, we have to reinvent Congress, not just the executive branch.

Congressman Flanagan said if you ask the wrong questions, you will get the wrong answers. I would suggest Congress systematically has been asking the wrong questions over the years. I'll offer

a new set of questions which I think could revolutionize the way government works.

I am going to offer—this is not only a hearing room but a seeing room here this morning—let me see if I can focus on that.

Let me first speak to the intergovernmental model, the model as we find it. This diagnosis is really taken from the National Performance Review, which I had the opportunity to work on one of the teams in the NPR. If you look at intergovernmental system, there are three basic problems with it.

First is that there are too many programs. They are far too fragmented. For clients this creates huge, enormous confusion about eligibility. It also creates balkanization of services.

This desk we found in Roseburg, OR, in a rural county cost $5,722. It was paid with WIC funds. An accountant from the Federal Government discovered that the desk was also being used for other health-related services when it was idle for WIC purposes, and therefore, there was a fine back as the desk was used for another purpose.

That balkanization of programs, with different accounting systems, really adds to the expense at the local level and it makes it hard for us to use resources wisely.

The second problem in government is that there is too much red tape. In Oregon, we have tried to diagnose this problem and look at how many dollars—and how much time our State employees spent responding to the regulations and requirements of Federal directives. It is an enormous cost. In the smaller agencies relating to Federal programs, it is upward of 50 to 60 percent of the time is spent working with Federal regulations. Even in the large agencies, such as welfare and food stamps, we find 20 percent of the administrative costs are dealing with regulations. Too much money and time is spent on dealing with regulations.

The third problem with intergovernmental regulations is that the dollars tend to focus more on remedial problems, or maintenance concerns like Medicaid, welfare, food stamps, foster care, instead of the preventive efforts that would avoid the need in the first place.

One quick example. The Federal Government matches our welfare expenditures 60 percent, 40 for State. There is no similar match for the preventive efforts like teen pregnancy reduction, improving high school outcomes that would reduce the need for welfare in the first place. Indeed, as our welfare caseload and poverty drops, we lose Federal money in the preventive programs.

And so there is a real systemic bias against the preventive efforts that we all know will make the biggest difference. So what's the solution?

We proposed using the NPR recommendations as the base for the Oregon Option Model. It was really what Dr. Rivlin mentioned earlier. We think if we start by focusing on the outcomes in the intergovernmental system and focus on the prevention efforts and then hold the system accountable for the results but give greater flexibility at the State and local level, you can do a great deal of good in terms of improving the performance of government.

Let me just give you one example we're looking in the Oregon Option. We took a simple example: Immunization. We found eight Federal categories related to immunization of children alone. Our

solution in Oregon is to have those categories all blended together. We have a Statewide comprehensive immunization campaign that involves the private sector, the hospitals, the rotary clubs, a comprehensive Statewide effort. We want to bring the Federal Government into that partnership. We'll hold ourselves accountable for results, immunizing the kids, but let's do it in a focused, flexible way.

All of this builds on our Statewide system of performance measurement and benchmarking. What we are trying to do in Oregon is to agree as a State on a basic vision for where we want to be in the future and on strategies for achieving that vision. We then tie that vision into measurable results. We call them benchmarks, and then we aim our initiatives at those fundamental benchmarks and monitor our progress against them.

I have copies of the report, if you would like, to pass around.

Now, the benchmarks we have in Oregon are organized in three broad categories. We measure how we are doing as a people, starting with babies at birth all the way through senior years. We measure our quality of life and we measure the economy both in terms of economic performance and the business climate.

In all, we have 272 benchmarks. We also use the benchmarks for setting priorities and we've also disaggregated at the county level, so local communities' work can be done using benchmarks as well.

The benchmarks focus on results, not effort. A key ingredient of the benchmark system is that we try to start with the fundamental results we want for our States. You won't find in the benchmarks things like school expenditures, prison beds, environmental enforcement. What we try to look at first are the outcomes we want for our State: Literacy, air quality, crime rates. Then we step back and ask ourselves what do we need to do to achieve those results? What changes in policy, what new partnerships are we going to need to achieve the results that we set up for ourselves?

The second feature of the benchmarks, which really relates to this, is the benchmarks aren't simply for State government. They are as relevant to local government, to nonprofit sectors and business, as they are to the State government because they fundamental—they focus on the fundamental outcomes. Indeed, we are now asking the Federal Government to join us and think about how Federal dollars can be used to focus on the outcomes that we care about.

Examples of benchmarks, reading skills, writing skills in the school years are examples. Reducing the rate of poverty in Oregon is a benchmark. Teen pregnancy reduction is a benchmark. And as I mentioned, we can break all these out as much as we can by county level.

Now let's talk about the NPR model and the model we are trying to build in the Oregon Option. The basic idea of the Oregon Option is to focus on measurable outcomes as the first point of departure, then to give communities the power to make decisions using those outcomes, with those outcomes in mind. Cut the red tape, get out of the way in terms of the Federal and State dollars, give communities the ability to achieve results and then hold ourselves accountable for performance. We have applied that model with the Oregon Option in what we call the human investment framework. We are looking at benchmarks at several stages. One is in the area

of—we looked at family stability, early childhood health, and work force development.

Just to give an example, on family stability, we are measuring child poverty, paternity, child support, teen pregnancy and we are trying to think through how the Federal dollars can be focused on those fundamental goals. And we are crafting strategies through welfare reform proposals to make a difference. In the area of work force, in early childhood development we have a series of measurable goals related to how children are doing in their early years and again we are trying to aim the Federal dollars to make a difference on those. The immunization example I gave earlier is but one of the examples we are looking at a classic Federal funding streams aiming toward the fundamental results.

Finally, in the work force area we are looking at measures of high school performance as kids move from the school to the workplace. We are setting a series of measures relating to the work force, as well as what we call the transitional work force, our ability to focus people moving back into the workplace. In each case, we are setting measurable standards for ourselves and asking how the Federal Government can make a difference in achieving those goals.

I will tell you, as we go through this process, a lot of the red tape and lot of the problems can be directly associated with Federal law. It's not simply executive agencies. And as I mentioned earlier, if we are going to change the system, we've got to rethink how the Congress writes laws.

And I want to offer in closing what I think the questions the Congress needs to be asking not just in this committee, which I really appreciate the oversight, but also in all committees these are the kinds of questions we believe need to be asked if we are going to make a difference in the way government works.

The first question Congress should ask as it approaches legislation is what results do you want to achieve. The second is how are we going to measure the results, how can progress be measured as we take a look at the changes we are asking for in America. And then who are the Federal Government's partners, how are we going to achieve this result, looking at State and local government and the nonprofit and private sectors as partners in this undertaking. And then, what is our strategy shared by the partners for achieving the result.

Then and only then do we ask what the Federal role is in terms of achieving the result. And with that Federal role in mind, then we ask what new laws and funding streams need to be established to achieve the work and talk about how we monitor and reward success.

I would argue if those series of questions were asked consistently, you would be leading a revolution. In Oregon, the legislators started asking these questions and when agencies come in and are confronted with them, it changes behavior very dramatically and I think it would at the national level as well.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Wyse follows:]

PREPARED STATEMENT OF DUNCAN WYSE, EXECUTIVE DIRECTOR, OREGON BENCHMARKING PROJECT

EXECUTIVE SUMMARY—THE OREGON OPTION

A PROPOSED MODEL FOR RESULTS-DRIVEN INTERGOVERNMENTAL SERVICE DELIVERY

Federal, state, and local government attention should focus on mutually agreed-upon measurable outcomes for public service delivery. The intergovernmental relationship should be a partnership, not an adversarial or competitive system. Federal financial support should be provided to achieve broad goals, but also should provide latitude and flexibility in how to accomplish them and be tailored to real local needs. Rather than defining accountability by inputs, transactions, error rates, and failure to progress, the federal government should hold state and local governments accountable for performance. The system should support and reward what works, rather than imposing rules and sanctions on the majority because of errors or omissions by the minority.

—NATIONAL PERFORMANCE REVIEW, 1993

The Proposition

Oregon has a proposition. Our state and local governments want to join with the federal government to act on the recommendations stated above.

We propose a special intergovernmental, interagency partnership and long-range demonstration project with the federal government to redesign and implement intergovernmental service delivery based on principles advanced in the National Performance Review. This approach would focus on results and treat results as the critical measure of success. In the model we propose, the federal government and our governments will mutually identify results to be achieved and we will be contracted to achieve them. To help us achieve these results, the federal government will merge funding categories and streams, create funding incentives which reward desirable results, and reduce micromanagement and wasteful paperwork. This collaboration will empower our communities to identify local needs to be met by federal and state programs, to make their own decisions about how to address those needs, and to be accountable for results.

The Problem To Be Overcome

This proposal accepts the premise of the National Performance Review: that the intergovernmental system for delivering assistance and services through federal grants and mandates to state and local governments has broken down in a tangle of good intentions gone awry. There are too many funding categories, suffocating regulations and paperwork, a misdirected emphasis on remediating rather than preventing problems, and no clear focus on measurable outcomes. The system stifles initiative and squanders resources without achieving sufficient results. We have been attempting to correct similar problems in state government. We are delegating greater responsibility for program design, delivery, and results to the local level, and we are encouraging more service integration and a preventive approach to problems.

Why Seize This Opportunity With Oregon?

Oregon is an ideal partner for this initiative. The test of a results-based intergovernmental system will be more successful where state and local government are already using an outcomes model for establishing a long range vision, setting public priorities, allocating resources, designing services, and measuring results. Oregon is well along in a pioneering state and local effort—Oregon Benchmarks—to do all of these things.

Benchmarks, begun in 1991, grow out of a statewide strategic planning process that identified three broad goals for Oregon: increase jobs and incomes by creating a diversified, productive economy, protect and enhance Oregon's quality of life, and invest in the capability of Oregonians. Benchmarks—272 altogether—are the measurable indicators of progress toward these goals. For example:

Benchmarks	Historical		Target		
	1980	1990	1995	2000	2010
Pregnancy rate per 1,000 females age 10-17	24.0	19.6	9.8	8.0	8.0
Percentage of 11th graders who achieve specified skill levels in reading	.....	83%	90%	95%	99%
Miles of assessed Oregon rivers and streams not meeting state and federal in-stream water quality standards	.....	1,100	723	75	0

Benchmarks	Historical		Target		
	1980	1990	1995	2000	2010
Real per capita income of Oregonians as a percentage of U.S. real per capita income	99%	92%	95%	100%	110%

The degree to which Oregon and its communities have embraced the benchmarks is remarkable. The benchmarks have been adopted by the last two sessions of the state legislature. They are the basis for building the state budget. Every county has used benchmarks for children and families, health, and work force initiatives. Seven of the state's 36 counties are voluntarily developing comprehensive, locally oriented benchmarks systems. The City of Portland, Oregon's largest city, and Multnomah County, Oregon's largest county, have jointly produced city-county benchmarks.

Multnomah County's budget, program initiatives, and action plans are built around high priority benchmarks. Benchmarks are also being used as a part of funding criteria by one of Oregon's largest foundations and by the Portland area United Way campaign.

Oregon communities have already achieved notable success using benchmarks, and they will continue to pursue the progress made these past few years. However, these efforts would receive an immense boost if federal participation was also focused and structured to achieve outcomes. Oregon offers an opportunity for the federal government to join the state and its communities in designing and demonstrating a more efficient, results-driven model of service delivery.

The Oregon Option

We recommend that "The Oregon Option," the demonstration project proposed here, focus on important elements of Oregon's top strategic priority, its human investment benchmarks. These benchmarks form a collective effort by state and local governments, civic groups, nonprofits, and businesses to appreciably improve the lives of Oregonians as self-reliant individuals, members of healthy families, and skilled, successful workers. They fit the strategy to enhance Oregon's economic prospects while getting more people off public assistance and reducing the human and financial costs of social dysfunction.

Oregon's human investment benchmarks focus on such outcomes as reduced teen pregnancy, diminished crime and recidivism, lower unemployment, higher per capita income, greater early childhood immunization, and stronger K-12 student achievement, just to name a few. A larger set of human investment benchmarks is appended.

Benefits

The most important benefit, and the ultimate test of The Oregon Option, will be results: e.g., higher rates of prenatal care and infant immunizations, lower teen pregnancy, higher K-12 skill levels, re-employment of dislocated workers. Other benefits include better use of public resources—money and people—at all levels, less customer confusion and despair, and greater confidence in public sector services. The Oregon Option also offers a laboratory for federal, state, and local participants to learn from their efforts and act on what they learn to improve service delivery. The Oregon Option will advance the Administration's domestic policy agenda and the campaign to reinvent government.

Requirements

The Oregon Option demonstration will require a long-term commitment and a fundamentally different way of thinking about the mission and structure of service systems by all levels of government. The system envisioned here is customer-centered, focused on outcomes, decentralized, and accountable. In this partnership, participants must be willing to a) contract for measurable results, b) combine funding streams, c) renegotiate funding amounts and rates, d) eliminate or suspend rigid and costly program restrictions, e) provide multi-year funding, and f) empower those closest to front-line service to choose the delivery mechanisms, initiatives, and investment criteria they deem most suitable. The demonstration will require the waiver of a number of federal rules, and it will require financial and political support. It is essential that the project have the initial involvement and continuing support of cabinet or subcabinet officials.

Next Steps

We recognize that a great deal of collaborative work lies ahead to take this concept forward. Team structure, benchmark outcomes, timelines, budgets, and organizational logistics need to be established. We are moving on Oregon Benchmarks already. We are ready to move on The Oregon Option.

APPENDIX A—A MENU OF HUMAN INVESTMENT BENCHMARKS

The following benchmarks illustrate the kind of results that Oregon seeks to improve the lives of its people.

Family Stability	1980	1989	1990	1991	1992	1993	2000	2010
1. Pregnancy rate per 1,000 females ages 10-17	24.0	19.6	19.7	19.3	17.9	.....	8.0	8.0
2. Percentage of children living above 100% of the federal poverty level	88%	.....	84%	.....	84%	.....	92%	100%
3. Number of children abused or neglected per 1,000 persons under 18	.....	12.3	11.3	10.5	11.3	10.8	6.0	2.0
4. Spousal abuse: domestic violence calls per 1,000 households	.....	47.9	46.1	45.3	45.7	56.9	30.0	20.0
5. Percentage of children who are homeless at some tune in the past year	.....	1.5%	.....	1.8%	.....	2.0%	0%	0%
6. Of children born outside of marriage, the percentage who have legal paternity established in a given year	33%	37%	.....	31%	.....	49%	80%	90%
7. Percentage of current court ordered child support paid to single parent families	44%	47%	.....	50%	.....	54%	95%	99%

Healthy Babies and Preschoolers	1980	1989	1990	1991	1992	1993	2000	2010
9. Percentage of healthy birthweight babies	95%	95%	95%	95%	95%	.....	97%	98%
10. Percentage of infants whose mothers did not use:								
a. *illicit drugs during pregnancy	.....	.....	89%	.....	.....	.....	99%	100%
b. alcohol during pregnancy (self reported by mother)	.....	93%	94%	95%	95%	.....	99%	100%
c. tobacco during pregnancy (self reported by mother)	.....	76%	77%	79%	79%	.....	95%	100%
11. Infant mortality rate per 1,000	12.1	8.8	8.3	7.2	7.1	.....	6.0	4.0
12. Percentage of two-year-olds who are adequately immunized	.....	.....	.....	.....	47%	50%	100%	100%
13. *Percentage of children entering kindergarten meeting specific developmental standards for their age								
a. Language and literacy development								
b. Physical well being								

* Data expected in September 1994.

Schools Years	1980	1989	1990	1991	1992	1993	2000	2010
14. Student Skills: Percentage of eleventh grade students who achieve established skill levels								
a. Reading	.....	.....	83%	82%	83%	.....	.....	99%
b. Math	.....	.....	67%	70%	65%	.....	.....	99%
c. Writing—Ideas	.....	.....	83%	.....	88%	.....	.....	99%
d. Writing—Organization	.....	.....	80%	.....	84%	.....	.....	99%
e. Writing—Conventions	.....	.....	81%	.....	86%	.....	.....	99%
15. High school graduation rate	.....	73%	72%	76%	74%	.....	93%	95%
16. Percentage of high school students enrolled in structured work experience programs	.....	3%	3%	3%	3%	.....	35%	55%

Schools Years	1980	1989	1990	1991	1992	1993	2000	2010
17. Percentage of students free of involvement with alcohol in the previous month								
a. Eighth grade	.....	77%	.....	74%	.....	.....	.....	99%
b. Eleventh grade	.....	56%	.....	63%	.....	.....	.....	90%
18. Percentage of students free of involvement with illicit drugs in the previous month								
a. Eighth grade	.....	88%	.....	90%	.....	.....	.....	99%
b. Eleventh grade	.....	78%	.....	81%	.....	.....	.....	99%
19. Percentage of students free of involvement with tobacco in the previous month								
a. Eighth grade	.....	87%	.....	85%	.....	.....	.....	99%
b. Eleventh grade	.....	77%	.....	81%	.....	.....	.....	99%
20. Juvenile arrests per 1,000 juvenile Oregonians per year	32	36	38	39	42	44	20	10

Adults and the Economy	1980	1989	1990	1991	1992	1993	2000	2010
21. Real per capita income as a percentage of U.S. real per capita income	99%	92% (1988: 91%)	92%	92%	93%	93%	100%	100%
22. Percentage of Oregonians with incomes above 100% of the Federal poverty level	89%	.....	88%	.....	91%	.....	100%	100%
23. Percentage of displaced lumber and wood products workers re-employed within 24 months and earning at least 90% of previous income	.....	.....	.....	.....	36%	.....	70%	75%
25. Average rate of reincarceration of paroled offenders within three years of initial release	.....	.....	.....	.....	41%	41%	20%	1.5%

Mr. HORN. I thank you for those suggestions.

I think they are excellent ones and I think the chairman of the full committee and myself and anybody else that wants to join us, we ought to hone that down and see if we can't get a rule of the House of Representatives that on every single bill coming on the floor those questions, when relevant, would be asked in that process. Because the weakness we have, obviously, and the weakness administrations have at all levels of government, is you do not build in the evaluation process when you pass the law.

We ought to agree on what some of the standards of measurement are. Too often it is simply that people can count because that's the easy way to do business. It might be money. It might be total immunizations and so forth. But we need to look at the negative, if it is total immunizations, at how many people have not been immunized, and see if, when you are trying to solve a problem, you can achieve 100 percent efficiency. It is a little hard, but it ought to be our goal to try to do that and not just say, "Well, we did the best we can. The best we can isn't enough."

So I found your testimony, both of you, very fascinating, and I would like to yield to the chairman of the full committee.

Mr. CLINGER. Thank you very much, Mr. Chairman.

I have no questions but I commend both of you for your contribution to what we are trying to achieve here. I think you bring some

very exciting concepts to the table. The New Zealand experience, I think, will be very helpful to us.

I understand that you, Mr. Wyse, have been working with Senator Hatfield on the Senate side.

Mr. WYSE. Yes, I have.

Mr. CLINGER. We will have the companion piece here in this committee and your input will be very welcome as we move forward.

I think, as Chairman Horn has said, the scenario you set forth, the questions that you ask are absolutely on point and the type of questions we don't ever ask around here, unfortunately, and need to start doing.

So I commend both of you. Thank you very much for your testimony.

Mr. HORN. Thank you, Mr. Chairman.

We are delighted to have the ranking minority member, Mrs. Maloney of New York.

Mrs. MALONEY. I have no questions, but I do want to thank you for initiating these series of hearings on reinventing government and I join you in your comments that these types of questions should be attached to all legislation so that we know the results that we are trying to achieve. It would be better thought out and a better way to measure if we are in fact achieving those results.

Thank you.

Mr. HORN. We thank you all for coming. You have been the shortest panel, but let me just say, with no denigration to the preceding panels, the information you have shared with us I think is extremely significant. And as the chairman and the ranking minority member said, we are looking forward to trying to use many of the ideas you have suggested and see if we can't get the disease of accountability, if you will, as this is a good disease, spread across the Federal Government, and that it would include not simply the executive branch. We will leave it at that.

Thank you so much for coming.

We have Dwight Ink, Institute of Public Administration; Scott Fosler, National Academy of Public Administration; Don Kettl, the Brookings Institution; and Herbert Jasper of McManis Associates.

If you gentlemen will raise your right hands, we will administer the oath.

[Witnesses sworn.]

Mr. HORN. All four witnesses having affirmed, let's begin with Mr. Ink and just go down the line. As you know, we have a 5-minute rule, so please summarize your statements.

Mr. Ink please begin.

STATEMENT OF DWIGHT INK, INSTITUTE OF PUBLIC ADMINISTRATION; R. SCOTT FOSLER, NATIONAL ACADEMY OF PUBLIC ADMINISTRATION; DONALD F. KETTL, THE BROOKINGS INSTITUTION; AND HERBERT N. JASPER, McMANIS ASSOCIATES

Mr. INK. Thank you, Mr. Chairman.

These are my personal views, not those of any organizations with which I am associated. I am, however, wearing a button which is honoring Public Employees Recognition Week that I think has particular significance in view of what happened in Oklahoma City re-

cently. I would address the processes and organization of NPR as I see it, as requested by the committee.

First, I am among many people who welcomed the President's initiative. While I don't agree with everything in the NPR, I think it is a very courageous effort, I do agree with the majority of concepts and feel they deserve bipartisan support.

Implementation, of course, is essential for concepts to have any value. There have been problems in Phase I that I will touch on.

First, the consultation with Congress was noted for its absence, which I think was a real mistake. Career people were utilized in the NPR design, but often not well. Too often they were placed in areas in which they had very little background and given very little time to become acquainted with those new areas.

The process was more open than some we have had in the past, such as the Grace Commission, but not as open as other reform efforts we've had. I think it is unfortunate that there seems to be such a denigration of Federal managers, for reasons still not clear to me.

Some of the examples of experiences elsewhere that were used in the design missed some of the most relevant cases such as public corporations, the early space program, and the old Atomic Energy Commission.

What about central leadership for NPR? Just about everyone agrees that the Vice President provided tremendous political leadership and I think he should be commended for his continued leadership. But the Office of the Vice President is not the place to provide professional, continuous leadership in moving forward governmentwide management reforms.

The OMB has had an uncertain role and there has been under Phase I too much tension between the Vice President's office and the OMB. The problem was exacerbated, in my judgment, by the reorganization of OMB, which placed the management people in the budget areas. This approach had failed twice before in the Bureau of the Budget and the OMB.

OPM has become a serious problem. The emphasis on cutting OPM regulations and staff, however one might value that, in the process the leadership role contemplated under the civil service reform in the statute of 1978 has been largely lost. I think that is a serious problem.

The Merit Systems Protection Board has been very quiet. I believe the next 2 years will determine whether its role as contemplated under the Civil Service Reform Act is fulfilled or whether it needs greater independence. GSA, I think, has done reasonably well with NPR.

One of the problems is its sequencing. Some of the processing streamlining was very appropriate in Phase I, but what functions agencies should be performing should have started at the outset. There's too much reengineering and restructuring before one knows what that agency is going to do or even who does it. Too much change for the sake of change.

There has not been enough in-depth analysis before the changes went forward, with too much reliance upon opinion polls and complaints. In HUD, unfortunately, the NPR has resulted in reverting to an old-fashioned, stovepipe-type of operation which gives too

much weight to the influence of special interest groups. I happen to have a high regard for Secretary Cisneros. This decision happened before he really had a chance to review what was needed.

Size of government is too much equated with the number of Federal employees. That is the one component of government that has remained fairly constant for about 30 years. I think it was important to give attention to the number of employees, but by looking at that as the total measure of the burden of government on the taxpayer, we have had a superficial approach to the solution.

The experience of corporations and in foreign countries is something, I am glad the committee is looking at. I would say that there are some important lessons to be learned. One, determine the roles and the structures before major downsizing of staff. Second, high priority should be given to professionalism of those people who are retained and to the retraining of people to new roles and new cultures. In my judgment, we have done quite poorly in Phase I on all these counts.

There are some positive aspects of Phase I. Certainly the red tape cutting is moving forward and I think we'll see a lot of positives in that area.

It is too early to assess the Reinvention Labs, but I except a number of improvements to come out of that experimentation and the pilot operations. Hopefully, the agency performance agreements will turn out to be useful and there certainly has been a welcome emphasis on innovation, which I think does credit to the NPR.

Under Phase II, the emphasis on what should be done is certainly welcome even though it should have begun about 2 years ago. I think it is better organized than Phase I, has less tension between the OMB and the NPR, and I am particularly pleased with the new OMB leadership.

Mr. HORN. I hate to interrupt. We have a vote that is just occurring and we are going to have to leave. When you finish that paragraph, we will recess for 10 minutes.

Mr. INK. OMB is the bright spot. Mr. Koskinen is very able and Alice Rivlin is giving strong support.

In conclusion, it is my view that despite the mistakes, and there have been a number of them in Phase I, we have an opportunity to move forward in a much more positive way now. I don't think, however, we are still well-structured or well-organized to handle departmental restructuring or some of the other more basic issues.

And finally, I think the problem of human resource development which is so important in the work of the private sector is a very serious problem and has been largely ignored by the NPR.

Thank you.

[The prepared statement of Mr. Ink follows:]

PREPARED STATEMENT OF DWIGHT INK, INSTITUTE OF PUBLIC ADMINISTRATION

Mr. Chairman, I appreciate the opportunity to comment on the National Performance Review (NPR). As suggested in your invitation to testify, I will share my views of the NPR process and its approach to reorganization. I should like to stress that this statement reflects my own personal views and not necessarily those of any of the organizations with which I am currently affiliated.

I have welcomed the President's initiative to improve the functioning of government, and support the majority of the NPR concepts. Implementation of the NPR concepts during Phase I has been quite disappointing in a number of respects, however. Phase II appears to be better organized, but is appearing very late in the proc-

ess to bring about basic changes that should have been addressed in Phase I. It is too early to predict with any confidence the extent to which useful results may emerge.

PHASE I

When President Clinton announced his intention to "Reinvent" government, there was considerable skepticism as to whether there was substance behind the rhetoric. Although I shared that skepticism, I was pleased that an incoming president was going to at least address the current problems faced by government, and do it on a large scale. I was also pleased that he had given the Vice President a leading role in developing recommendations on how to reinvent government.

As recommendations of the National Performance Review emerged, a few strongly criticized them as being a mishmash with no underlying theory or cohesiveness. True enough, but pragmatists saw in the NPR a number of things that sounded pretty good, theory or no theory.

The NPR goal of cutting red tape is a perennial favorite, even though the red tape seems to have a remarkable ability to regenerate over time. Cutting costs, providing more flexibility to agencies, empowering employees, better measurement of performance, and other NPR objectives were welcomed by many of us. Renewed attention to intergovernmental problems such as unfunded mandates was also a plus.

The NPR gave a welcome boost to the need for more experimentation and more pilot operations through accepting offers from agencies to become Reinvention Laboratories. NPR promised a welcome emphasis on results. The greater support indicated by NPR for initiative and creativity on the part of government managers was long overdue. As one would expect, reducing the size of government appealed greatly to those outside government, and did much to generate support from Republicans as well as Democrats.

Not all NPR concepts appealed to me, however. The overkill on satisfying the customer has almost replaced the much broader, and deeper, concept of serving the citizen. The customer image is useful up to a point, but it has begun to push to the background the responsibilities of citizenship. It also tends to move us too heavily in the direction of listening to the polls of the day and the pleas of the special interest groups in carrying out our laws.

However one may judge the quality of NPR concepts, we have to remind ourselves that concepts for institutional change do not, in themselves, produce results or solve problems. Even the most simple reform requires implementation design and execution skills if it is to be translated into effective action. Under the most skillful management of the change process, such NPR objectives as clarifying program objectives and measuring results are exceedingly difficult to achieve. Phase I did not measure up well to the implementation task, as we will discuss.

DESIGN PROCESS

Organization and Staffing Problems. To begin with, a number of knowledgeable observers have been concerned about the manner in which people were chosen to work on the NPR teams. At first, there seemed to be a commendable effort to utilize experienced men and women in the career service. I say "commendable" because, with proper support from political leaders, top career men and women are far more innovative than the public realizes, and their knowledge of the subject matter can save time and avoid costly mistakes that tend to plague outside "experts" that are too often called upon. Not infrequently, however, experienced men and women who were tapped for initial duty with the NPR crosscutting systems teams, were assigned to entirely different areas with which they were not familiar and then given very little time to understand the territory they were to reinvent or to interact sufficiently with the various stakeholders.

Turning to the internal agency NPR teams, these might be expected to vary considerably in quality and approach from agency to agency, but I doubt the Vice-President is aware of the degree of contrasting styles in how these agency teams functioned. In a few instances, for example, some agency personnel most knowledgeable in the subject matter were prohibited from even talking to the agency NPR teams. At times the agency NPR recommendations were held very closely and not shared with agency managers who might have had valuable suggestions to offer. Other agencies fared better.

Surprisingly, very little field involvement was evident, yet the field men and women have the most interaction with the government's customers and are in the best position to provide a grass-roots perspective.

In addition, NPR suspicion of career managers, and the general denigration of them, has not been conducive to generating confidence or a sense of ownership in

the outcomes they are expected to implement. As a result of a less than open process, it has been difficult to extend the enthusiasm of the NPR teams to the bureaucracy as a whole where we find considerable confusion and low morale.

Several reforms have been much more open than the NPR, but the NPR failed to acquaint itself with earlier successful techniques that could have improved its performance enormously.

Central Leadership Organization. In addition to the frequent poor utilization of good people in the NPR teams, there has been a lack of individuals in the Vice-President's Office with leadership experience in broad reforms that extend beyond departmental lines. Neither has the monitoring capacity of that office been adequate.

This problem has been seriously compounded, in my view, by an OMB reorganization which folded much of an already weakened management staff into the budget units. Placing management in a budget dominated environment has failed twice before. Such an approach works against the need for addressing crosscutting management and organization issues, and tends to place priorities too heavily on the short-term annual budget cycle. The budgetary environment also tends to be more control-oriented than is consistent with NPR philosophy. Finally, in the past, when the two functions were merged, the inexorable pressures of the budget squeezed management out of the radar screen of OMB leadership.

The Vice-President was an excellent choice on the part of President Clinton to provide the political leadership for reinvention of government. But it was the OMB, not the vice-president's office, that should have been tapped for the day-to-day coordination of the government-wide effort. OMB has an institutional role which, when properly organized, can supply the necessary professional leadership which the political and transitory environment of the vice-president's office cannot. Setting up a competing NPR staff under the Vice-President left agencies somewhat caught between the two and NPR accountability was blurred.

Adding to the leadership problems, the Office of Personnel Management (OPM) seems to have focused primarily on cutting pages of procedures and reducing staff, that its vital role of human resource leadership during periods of reform was lost.

SEQUENCE OF PHASES

We have heard considerable criticism that NPR has put the cart before the horse. It is said that the NPR should have looked first at what changes needed to be made in the roles and programs of departments and agencies before trying to improve the processes through which these programs should be managed. We hear that NPR II should have come first, and NPR I second. I agree, with some exceptions.

Some Areas Sequenced Properly. There are a number of cross-cutting administrative issues that did not need to await reviews of the roles of the national government or changes in missions and goals. In fact, it was very wise to take advantage of the first year of a new administration to move ahead with them while a window of opportunity existed. Simplification of government-wide personnel and procurement regulations, and the roles of the central policy agencies of OMB, OPM, and GSA are not materially affected by individual changes in roles and programs of other agencies now under consideration. Neither do I see these central streamlining efforts having to await a determination of the ultimate extent of downsizing. NPR was correct in regarding these as appropriate for early attention.

Elements Out of Sequence. Agency-specific roles and processes are affected directly by program decisions, however, and in these critical areas we have put the cart before the horse by moving process ahead of substance. HUD, for example, appropriately moved quickly under strong leadership of Secretary Cisneros to clarify some of the tangled delegations of authority that handicapped effective delivery of department services. On the other hand, the more basic decision made at the outset of the incoming Administration to eliminate the regional offices struck many of us as an example of NPR "amputation before diagnosis."

Little thought was given to why these regional offices had been established in the first place as a part of earlier decentralization. They were designed to bring decision making out of Washington and closer to the communities HUD served. Personnel levels never permitted the staffing of local HUD offices so they could perform what the regions were designed and equipped to accomplish. Before determining the size and structure of the HUD delivery system, there should have been a review of what programs or activities could be devolved to state and/or local governments. There should have been analyses of current community needs requiring a continuing federal involvement similar to the type that was done before the regional offices were established.

It was equally unwise in Phase I for NPR to reorganize HUD headquarters into an outdated "stove-pipe" series of fiefdoms in the absence of any NPR principles of departmental organization and before the Secretary of HUD, Mr. Cisneros, had a chance to review his department's mission and programs. Contrary to NPR philosophy, this old fashioned type of structure that emerged from NPR is more geared to the Washington assistant secretaries than to the communities or "customers" HUD serves.

Principles of Organization. Piecemeal approaches to basic departmental structure, and "amputation before diagnosis" are not responsible processes for reform. Early NPR-inspired structural revamping of HUD illustrates why critics have stressed the need for a conceptual framework before proceeding with basic changes in organization. They are right.

Two-track Strategy. Perhaps it would have been useful to proceed with two carefully coordinated NPR tracks from the outset, rather than in sequence. One track to address the crosscutting process issues, and another track to address the more basic issues of program changes, devolution to state and local government, contracting out and privatization, together with principles of organizing agencies to carry out those activities that were determined to be best performed at the national level.

Too big an agenda? In the early 1970s, the most drastic proposal in our history for consolidation of domestic agencies was forwarded to Congress at the same time a major multi-pronged attack on government red tape and other systems changes were charging ahead.

CHANGE FOR THE SAKE OF CHANGE

Phase I has also suffered from a penchant for change just for the sake of change. Virtually all existing processes and structures were assumed to be "broken" and automatically in need of overhaul. Without much of a battle plan, troops were then sent out over the government landscape with a trumpet call to charge up the hill of reinvention. This type of behavior on the part of incoming leaders is not new. I believe it has been a political disease for many centuries, going back at least to the Roman Empire, and probably earlier.

NPR's exaggerated hype and questionable anecdotes were useful for getting needed support for the task of improving government, but not a very good foundation for sound reform. Little attention was paid, for example, to whether a system or structure was really a candidate for the junkyard or whether it was suffering more from an extended period of inept management or political intervention. There certainly was a lot of bath water to throw out, but should we have looked harder for a few babies?

There has been a failure to realize that no system or organization has been invented that is effective if saddled with inept management, abuse, or corruption.

Opinions vs Facts. During the "New Federalism" reforms of the 1970s, it was found that very often the conventional wisdom as to the cause of dissatisfaction was totally wrong. If one did not dig further to determine what was actually happening as compared with what someone thought was happening, the cure could be worse than the illness. The same was true of the detailed analyses made before designing President Carter's Civil Service Reform. I have seen very few NPR analyses during Phase I that were very thorough, although I suspect there have been some, particularly in the Department of Defense.

Bureaucratic Fossilization Over-Rated. The NPR also seems to have erroneously assumed that the "entrenched bureaucracy" has successfully resisted any change in the past and our agencies have fossilized. Therefore, as a matter of principle, a good shaking up of the encrusted bureaucratic culture was thought to be needed.

In domestic agencies, the opposite history is often true. Typically, our federal managers have had to cope with an almost continuous series of reorganizations and other changes as political officials with an average tenure of less than two years come and go. Some years ago we convened a group of assistant secretaries who said that it was very difficult to complete one reorganization before the next was announced. We found instances in which various stages of three different reorganizations in the same unit were in process! In very few of these cases did the political leadership have indepth knowledge of the organizations or the programs they were supposedly reinventing. And where there were highly capable political leaders in the driver's seat, they were invariably gone before their plans could be carried out.

One situation that often gives the uninformed an erroneous impression of an entrenched bureaucracy is the insecurity of an incoming political appointee who neither understands the programs he or she is to lead nor possesses the managerial capacity to lead.

Cost of Reform. In addition to the danger of moving in the wrong direction through uninformed or impulse direction, there is always a cost associated with drastic changes that is often overlooked or ignored. Of special note is the fact that disruption from poorly designed changes in service delivery systems creates more problems for the customers of government than any one else. Major changes should be made only when a reliable analysis demonstrates there is truly a need for such change. Failure to first establish a credible case for contemplated reform adds greatly to organizational and political resistance to change.

Recognizing the need for true reform on occasion, we nonetheless need to also increase our ability to make frequent, if not continuous, adjustments to organizations and processes so they can remain abreast of the continuous changes that characterize a dynamic society such as ours. Unfortunately, too often these incremental adjustments are more a gradual accumulation of procedural barnacles than the desirable process of modernization to keep pace with changing conditions.

Seasoned judgment is required to know when incremental improvements are not sufficient to meet current needs. On those occasions when reform is genuinely needed, further incremental steps constitute mere tinkering that delays and ultimately increases the cost of more fundamental change when it does occur.

SIZE OF GOVERNMENT

Successful harnessing of the energies and cooperation or career people requires candid explanations of the objectives and processes of an upcoming reform. Downsizing is especially threatening to begin with and requires a special effort that was missing in NPR.

The NPR emphasis on reducing the number of employees by a precise amount with no credible rationale for the number is another example of action before analysis that was compounded by a widespread view that the NPR leadership was not leveling with the troops on the true reason for the cuts. The whole NPR became interpreted by employees as simply an excuse for achieving a hidden agenda, that of reducing the budget and the employment rolls, with better government largely window dressing. This mistake gravely hurt the credibility of the NPR from the beginning.

The FTE Mythology. It is also unfortunate that the Clinton Administration, as well as many members of Congress from both parties, has further undermined NPR credibility by equating the size of government with the number of federal employees. This is wrong. As pointed out by Paul Light in his recent book, "Thickening Government," the number of federal employees has remained virtually constant over 30 years, while the number of contract employees has increased substantially and the real expenditures of government have increased dramatically through new and expanded programs. Government employment growth has been in the state and local levels which, interestingly, Mr. Osborne and other architects of NPR philosophy suggest offer road maps for federal government reform. Our preoccupation with the one non-growth element of the government reflects a superficial approach at both ends of Pennsylvania Avenue in addressing the size of government and how to curb its overall growth.

A MISSING CORNERSTONE OF NPR REFORM

One can view institutions, both private and public, as being comprised of three basic components; structure, systems, and people. The last component, people, is the most critical of the three.

There is a widespread view that the most serious gap between NPR promise and delivery has been in the area of human resource development and management. Anyone who has managed organizations knows full well that no amount of innovative change in structure or systems can substitute for qualified personnel. Without capable and well trained people, policies cannot be implemented and programs don't work.

These points are so basic that one might think an effort to reinvent government would give the highest priority to enhancing the quality of the workforce and providing an environment in which men and women were protected from political manipulation in the course of reinvention. Wasn't that the spirit of the NPR in empowering public servants to do more with less? Instead, we find increasing evidence that the opposite road is being taken.

Professionalizing the Career Service. First, we started off on the wrong foot by relaxing the Hatch Act provisions designed to prevent politicizing the career service. Second, the NPR then failed to follow through on its original plan to emphasize the need for new training to equip men and women to function effectively in a new environment with wholesale changes in roles and assignments. A person should not be

expected to operate or manage an entirely new process without having an opportunity to learn that new process. Contracting out, for example, requires shifting from directly carrying out an activity to administering a contract through which the activity is conducted, a very different task requiring very different skills for which people must first be trained to avoid high costs and possible corruption.

Instead of gearing up to prepare government employees for their new roles and culture envisioned by NPR, training activities are said to be reduced in most domestic agencies. Some have never had much capability. The integrated career development and training program put together by former OPM Director, Connie Newman, has been dismantled. The Federal Executive Institute no longer has a full-time Director, and apparently the regional training centers are slated for elimination. The future of the successful Presidential Management Intern program is uncertain.

It does not appear that we will retain any point of leadership with government-wide responsibility for helping agencies make the transition to a progressive, skills-oriented, employee empowered workplace. Do we really believe that none is needed, or that the policy leadership and oversight can be handed over to contractors?

Instead of moving from rowing to steering, as contemplated by the 1978 Civil Service Reform and NPR, OPM seems to be moving from rowing to drifting.

DECENTRALIZATION

The NPR recommended delegating a number of central policy agency functions to the agencies to reduce centralized red tape and permit agencies to better tailor management to their particular needs. This concept is fully consistent with the thinking of most students of public administration and should be supported. As with everything else, however, implementation has its pitfalls and I suggest this Committee explore NPR experience to date as future hearings are conducted.

Numerous earlier decentralization efforts in the government have been short-lived because of implementation weaknesses. Too often, highly desirable delegations to agencies or from agency headquarters to the field have been gradually reversed over time as confusion, blurred accountability and even corruption have led to recentralizing what had been delegated. There are decentralization flaws that recur time and again. Several basic elements of decentralization can be stressed.

First, there needs to be an assurance that the organizations receiving the delegations have the capacity to perform the delegated functions. Typically, there are great variations in the existing capacity of agencies to handle a higher level of personnel responsibilities, from excellent to poor. Second, the delegating agency must remain accountable for those authorities which have been delegated. Therefore, the delegating agency needs to have an effective oversight program to monitor performance of the activities delegated and must retain more than a theoretical ability to modify or withdraw the delegations when performance is inadequate over a period of time. Third, sufficient capacity needs to be retained by the delegating organization to advise those that need technical assistance. I believe that GSA is trying hard to follow this course of action, but OPM has evidenced little understanding of decentralization and has performed poorly. Effective decentralization is not regarded by most observers as having been a strong suit of Phase I. It is my impression that OMB has provided little leadership in how this important component of NPR should be managed.

RED TAPE CUTTING

One of the success stories of the NPR Phase I appears to be in the area of simplifying regulations and procedures. These accumulate over periods of time to unbelievable proportions. This is an area where I believe the NPR emphasis on individual creativity and innovation of agency teams is paying dividends.

It is too soon to make a firm assessment of this encouraging aspect of NPR, but if NPR can reach the point of developing techniques providing continuing protection against future return of red tape, without embedding the reforms in such a protective shield they fail to adjust to changing needs, it will have deserved a gold medal.

VERIFICATION

Considerable variation in the quality of performance among agencies is to be expected in any government-wide reform. I believe the Committee will be interested in ascertaining what oversight mechanisms are established to assess these variations and move on a timely basis to help strengthen areas in which NPR expectations are falling short. It is important that agencies arrange for independent verification of claims of progress to make sure they are accurate and can withstand outside scrutiny. This should be done as soon as products begin to appear rather than waiting for the usual post-audit reviews. OMB should be in a position to pro-

vide guidance on verification techniques, and the GAO can test the reliability of the agency verification mechanisms.

A word of caution. Auditing and evaluation activities must recognize the trial-and-error nature of the experimentation work fostered by NPR. Failures in Reinvention Laboratories are going to occur, and it is to be expected that certain pilot operations will not perform sufficiently well for full-scale adoption. Performance measures will not be perfect. How the verification and evaluation activities are conducted will have considerable influence on the extent to which employee initiative and innovation fostered by NPR will survive.

PHASE II

Phase II of the NPR is directed toward determining what the Federal Government should do, a vital step that should have been launched two years ago. An enormous effort will be devoted to define goals, measure progress toward those goals, and assess program effectiveness, none of which we have done very well in the past. Although these initiatives should have been launched two years earlier, the Administration deserves credit for tackling these tough issues. This second phase presents several important challenges to the President and the Congress, particularly as they struggle with the deficit reduction issue and new downsizing pressures.

ADDITIONAL DOWNSIZING

Much as I deplore the cavalier manner in which the 252,000 cut (later 272,900) in employment seems to have been established, as I indicated in the discussion of the first Phase, I nonetheless believe the federal workforce can be cut even further if done in the right way. For years we have permitted the spawning of too many agencies, for example, a development which increases overhead and has led to structural fragmentation that serves powerful special interest groups better than it serves the public.

A number of us objected to establishing the Departments of Education and Energy, as well as the separate Social Security Administration. Further, I had occasion to eliminate an entire independent agency, a rare event in peacetime. And if we move ahead with more program reductions and devolution of functions to state and local governments, accompanied by additional NPR streamlining of the procedural requirements placed on federal managers, I see no reason why additional significant reductions cannot, and should not, take place.

On the other hand, if we persist in the further cutting of career staff before addressing the program responsibilities and requirements placed on the federal employee, if we proceed to delegate without oversight, and if we continue our current negative treatment of federal managers, we will be in trouble. Under these circumstances in which we perpetuate the mistakes of the first Phase, I believe that significant additional downsizing is likely to lead to government waste, poor delivery of services that are retained as government responsibilities, and increased opportunities for abuse and favoritism in administration of these programs. Vulnerability to corruption must not be discounted.

An exception to this "look before we jump" admonition is that the number of special assistants, multiple deputies, and political schedule "C" appointments should be cut more sharply than I believe current plans envisage. I would urge that the Committee give serious attention to the Volcker Commission report "Leadership for America: Rebuilding the Public Service". Composed of a highly prestigious group with extensive government and non-governmental experience, the Commission built a powerful case for greater professionalism of the public service and a 50% cut in the number of political appointments. I heartily agree. As an agency head I found two or three to be indispensable. Beyond that, I found political appointees to be a major problem in carrying out policies of the President and Congress effectively.

One can reorganize and streamline to the point of exhaustion, but the results may be either zero or minus unless higher priority is given to professionalism and protection from political manipulation and abuse of the new flexibilities than has emerged thus far from Phase I of NPR.

DEPARTMENTAL RESTRUCTURING

I am uneasy about the way in which we seem to be approaching large-scale restructuring. With the understanding that this Committee will look at substantive reorganization issues in its later hearings on departments, I will confine my comments to the NPR process.

A serious flaw in Phase I was the failure to address roles and missions at the outset. We are now in danger of structural reform before we have addressed these issues except on a piecemeal basis. Further, there is no set of organization prin-

ciples yet developed by NPR that will provide a general framework as individual agencies are redesigned, consolidated, or abolished. Each proposal for a government corporation, for example, has thus far been developed independently, generally by people who know little about government corporations. No credible mechanism has yet been established for addressing the complex question of consolidation and/or elimination of departments and agencies. Inexplicably, field organization issues are being addressed almost as an afterthought, whereas I believe they should have been one of the principal starting points for both structural and systems reforms. This low priority for the interface between the federal government and its "customers" illustrates why some of us believe that NPR suffers from a common "made-in-Washington" malady that needs to be corrected in Phase II. Here is another instance in which a willingness to profit from past government experience might have enabled early NPR implementation efforts to more nearly match the NPR concepts.

Because Phase I was so loosely organized and eschewed the use of unifying organization principles, it has, in my view, established a piecemeal pattern that will be difficult to overcome in considering departmental reorganization. NPR is now faced with severe time pressures since major changes in government operations that take place during the last year of a presidency do not survive the next election very well, even when the same Party remains in control. In recent years we have lost the institutional capability to design reforms from the standpoint of the total impact of the many arms of government programs and processes on citizens, businesses and communities. This is a serious loss, and warrants attention by this Committee as well as the NPR. The recent OMB reorganization further weakens this capacity.

I would suggest that this Committee look at NAPA Panel reports, the Hoover Commission reports, and the comprehensive 1971 proposals of President Nixon to develop a sense of the type of organization principles which large-scale restructuring might update and follow.

RESTRUCTURING EXPERIENCES ELSEWHERE

I am pleased that the Committee is looking at restructuring practices in our private sector and also in other countries. Much has been happening, and some of these practices will be of great interest and widen our perspective of types of changes to be considered in government.

I would first note that a number of major corporations and Commonwealth countries have found their early slash-and-burn approach to downsizing before needs were assessed was counter-productive. I understand the Committee staff is looking at other corporate downsizing approaches that have proven more effective.

The emphasis on professionalism that is characteristic of foreign and private sector changes is an area that I believe needs to be given considerable weight as we see where we might benefit by taking advantage of these other experiences. It is my impression that most of the successful corporation downsizing programs in this country have taken considerable care to retain and retrain their best people. Similarly, the very interesting government reinventing programs in New Zealand, Australia, the United Kingdom and Canada have also given much greater attention to the importance of professionalism in the public service than we have to date.

In assessing the applicability of advances in British Commonwealth countries toward leaner and more flexible government institutions, we have to consider carefully one basic difference between those countries and the United States. All of these promising foreign advances have occurred in governments which had only a fraction of the political appointees we have here at home. For this, and other reasons, their government operations are far less vulnerable to political pressures and interventions in their operations than is true in the United States non-defense agencies.

This is a fundamental difference we ignore at our own peril.

Privately, many of those closest to the foreign restructuring programs express doubt that the United States can sustain the NPR concepts of flexibility and innovation in a system in which the career service is so denigrated and overlaid with numerous political appointees. The political pressures on personnel actions affecting career men and women and the award of contracts, combined with the short tenure of most political appointees who tend to leave about the time they understand their responsibilities, and the constant destructive attacks on the career "bureaucrat" by U.S. politicians are serious problems they see as severely limiting the chances of NPR long-term success.

Bureaucrat Bashing. The negative rhetoric we keep hearing concerning agency managers is not helpful in attracting and retaining the most qualified people. The taxpaying public is shortchanged if we do not make every effort to draw upon the best professional to carry out the public business.

It would be interesting to learn what the public image of private sector management would be if it were subjected to (a) the incessant criticism that government management receives from aspiring politicians, (b) the pervasive detailed reports of multiple government oversight entities who gain their recognition and praise from negative reports rather than balanced observations, (c) a press that also feeds on the negative in government rather than the positive, (d) special interest groups with the power to force an ever mounting pile of restrictive red tape on managers, and (e) a board of directors numbering in the hundreds, each of which is entitled to look into the smallest detail of day-to-day operations.

In addition to the attention these corporations and governments have given to professionalism in the change process, most of them have learned the importance of first deciding what the organization is to do before launching major restructuring reforms.

Organizations the Committee can draw upon for information about private and foreign restructuring practices include the National Academy of Public Administration, the Council on Excellence in Government, the Conference Board, and the American Consortium for International Public Administration.

CENTRAL POLICY LEADERSHIP

Office of Management and budget. Phase II appears to be functioning better than Phase I in several respects. Perhaps the most positive development in the Administration's organization for Phase II is a key appointment in OMB. Director Alice Rivlin and the White House have selected a topnotch manager, John Koskinen, to the post of OMB Deputy for Management. The highly respected Ms. Rivlin appears to be backing up this appointment by giving Koskinen strong support. It is my view that Mr. Koskinen is already demonstrating impressive leadership as Phase II of the NPR gets underway. Some members of the interagency President's Management Council appear even more optimistic.

Director Rivlin is giving heavy prominence to the second phase of N{R in the OMB Spring Review, an excellence mechanism for dealing with such matters as goal setting, performance measures, and program evaluation. She and Koskinen are striving to develop more coherence among NPR, GPRA, and agency Performance Agreements. I find these elements of leadership most encouraging.

One also gets the impression that Mr. Gore's role remains a highly important one, and the NPR-OMB tension is much reduced. Time will tell to what extent Mr. Koskinen is able to overcome the OMB organizational difficulties he inherited. Further, there is the question of what happens when Koskinen and Rivlin are no longer in OMB. A number of us continue to urge serious consideration of an Office of Federal Management for the future.

Office of Personnel Management. Because I was in charge of the design phase of the Civil Service Reform and wrote the final report on which the Reform was based, I have firm views on what was intended by the 1978 law. I cam assure you that the new OPM role under the NPR falls considerably short of what the Reform intended. And as you and your colleagues in Chairman Mica's Committee talk with knowledgeable people, I believe you will find widespread doubt that OPM is exercising the leadership contemplated under existing law. The extent to which current management of the agency may be setting precedents that increase vulnerability of the career service to political manipulation is also a troubling question.

The greater the degree of institutional and program changes, and the larger the staffing cuts, the more emphasis that has to be placed on training and retaining highly qualified professional agency personnel.

The ability of any Administration to sustain the type of operational flexibilities introduced by NPR, one of its most valuable features, depends in no small way on a future career workforce that is professional and nonpolitical.

I urge the Committee to take the time to review the excellent report "Rebuilding the Public Service" that was issued by the National Commission on the Public Service.

Merit Systems Protection Board. The MSPB and the Special Counsel are now facing the most severe test of their ability to safeguard the career service against practices prohibited by law and which undermine the professionalism of the workforce. Vulnerabilities develop most easily during periods of large and rapid change. Not too much activity concerning NPR has been yet observed by the outside world, and one wonders whether their important roles as envisaged by the Civil Service Reform are alive and well. The next two years should demonstrate whether they have sufficient tools and independence to succeed.

General Services Administration. Most of my reports concerning GSA are positive, although my current information is limited. Proposals to simplify the procurement

system are being approached by OMB and GSA in a professional way by qualified personnel. It remains to be seen how well agencies retrain their procurement officers to be effective in a new environment which calls for more emphasis on seasoned judgment and less on the "command and control" style that has been generated by a procedure dominated field of activity. It will also be important to now take a quick look at the possible impact of Oklahoma City on any future plans for future downsizing of GSA building protection staff.

CONCLUSION

In summary, I would argue that a majority of the NPR concepts were worthwhile and deserving of support. But the government-wide approach to implementation of Phase I, with the exception of a heroic personal effort on the part of the Vice President, has encountered significant problems of organization and execution. Too much restructuring was attempted before missions and roles were established.

It is my impression that Phase II is better organized. There also seems to be a better recognition of the need to work with Congress as reforms evolve. Particularly important, Phase II appears to be looking at missions and roles before embarking on further changes for the sake of change. OMB plans, in conjunction with the President's Management Council, contemplate much better analyses before leaping forward.

Despite progress by OMB and the President's Management Council, however, important issues crossing organizational lines are still not sufficiently coordinated. NPR is faced with a particularly difficult challenge in addressing issues crossing agency jurisdictional lines which have an impact on individuals and communities throughout the nation, a task made more difficult by last year's OMB reorganization. It is quite late in the life of this presidential term to just now be defining missions and roles on which broad reforms can be intelligently based.

Despite numerous criticisms of the central implementation effort during Phase I, some agencies believe they are using the freedom provided by the NPR to undertake positive changes that are said to cut staff and costs while improving performance. I suspect this is true, and NPR should be given credit for these advances as they are verified and announced. Perhaps more of these advances will emerge than are now apparent.

I would hazard a guess that in the long run those agencies which have a tradition of good management and are reasonably well protected from political interference in their management activities, such as the Department of Defense, will use the flexibilities of NPR to advantage in major improvements of processes that are self contained within an individual agency. As things stand now, I fear that less fortunate agencies which are more susceptible to political pressures will in the long run encounter a series of failures born of NPR, particularly through the abuse of the very management flexibilities we have worked for so long to achieve.

Mr. Chairman, this Committee and its staff should be commended on the time it is devoting to the NPR and believe that it has a great opportunity to work with the Executive Branch on a bipartisan basis to move Phase II in a constructive direction that can more nearly realize the NPR promise of more effective government.

Mr. HORN. Thank you.

We will now take a 10-minute recess.

All four of you have written excellent statements. We talk a lot in this town about wise men and wise women in foreign policy and defense policy. There is no question that on this panel we have four of the wisest on public administration. So I thank you once again for coming.

[Recess.]

Mr. HORN. The hearing will now resume. We are going to begin with Mr. Fosler. After your presentation, we will have to leave for another vote.

Mr. FOSLER. Thank you, Mr. Chairman.

As you know, the academy is an independent, nonpartisan, nonprofit organization chartered by Congress to identify emerging issues of governance and provide practical assistance to Federal, State and local government on how to improve their performance.

The role and mission of the National Performance Review to make government work better and cost less is similar to at least 10 previous efforts in this century to improve the effectiveness and efficiency of the Federal Government, and viewed in a broader and contemporary context, the NPR is akin to restructuring initiatives undertaken in recent years by businesses, nonprofit organizations, and State and local governments within this country and abroad.

All of these institutions are confronting the same forces that are compelling a fundamental change in the way they function. In fact, several of America's trading partners have been restructuring their national governments for more than a decade, as you heard from New Zealand earlier, and many view the NPR as a latecomer to this movement.

The question confronting the Federal Government is not whether to restructure but how to do it and how quickly to do it. We've learned a great deal from the mistakes that have been made by other institutions going through these kinds of restructurings. Some simply try to patch their problems. Others engage in "amputation before diagnosis," creating even greater problems. And still others simply try to squeeze current structures and end up with a smaller version of what didn't work before.

We urge the NPR and the Federal Government as a whole to attempt to leapfrog these common way stations on the path to restructuring, and go directly and quickly to where the Federal Government is likely to end up sooner or later, which is addressing fundamental questions of performance: What is our purpose, our mission, our capacity and the results that we want to achieve?

Phase II of the NPR appears to be moving in that direction, expanding its focus beyond how government works to what government should do and should not do. And the 104th Congress clearly is asking fundamental questions about the role of government.

If it is to move successfully toward addressing such fundamental questions of performance, the NPR will need a more clearly articulated framework and a robust set of principles that can drive the effort and keep it on a steady course.

The four principles articulated in Phase I, putting customers first, cutting red tape, empowering employees, cutting back the basics, may have been a practical way to begin but they don't provide the scope, the depth, and the sustaining power to drive and sustain the effort.

We suggest one possible approach in the appendix to our testimony. But while setting an appropriate direction to restructuring is necessary, it is not sufficient. The NPR can't accomplish its ambitious goals without the capacities to implement it and make it work. These capacities include people with the right skills and the organization and systems within the executive branch to assist and facilitate the restructuring and continuous improvement.

We would also urge the Congress to build its own capacity to better understand the operations of the Federal Government and to help to design, to support the implementation, and to oversee the complex organizational changes that are under way and that can certainly be expected in the future.

In recent studies for the Congress, the academy has comprehensively examined such policy areas and such agencies as HUD, EPA,

and FEMA and academy panels concluded in each instance that substantial improvements can be made in management through immediate actions taken by the agency and the executive branch itself.

However, one of the principal obstacles to effective management in each case was a lack of clear direction, and cohesive and consistent oversight from the Congress. And I think that the presentation that you heard earlier on Oregon benchmarks and the effort that is going on within the executive branch at the present time to try to tie Federal actions to what is going on at the State and local level is an example of one way that we might move.

Certainly the two branches have their own responsibilities, but they need to work together to provide the machinery that will permit the government as a whole to deliberate, set, and implement policy in an effective and efficient manner.

One very important tool for that purpose is the Government Performance and Results Act, as almost everyone seems to agree. This should help both the Congress and the executive branch to apply discipline to the definition, measurement, reporting and assessment of results.

So, in sum, the NPR, Mr. Chairman, is an important start in restructuring the Federal Government, to address these contemporary challenges. But it needs to consolidate the gains that it's made to date to correct for the mistakes that we now see on the basis of experience and to sustain the energy and initiative that it has brought to this task.

It will need to address key issues of accountability, sharpen the definition of its framework and principles, and build the capacity required to carry out this task over the long run. And in that regard, it clearly will need both the support and the partnership of the Congress.

[The prepared statement of Mr. Fosler follows:]

PREPARED STATEMENT OF R. SCOTT FOSLER, NATIONAL ACADEMY OF PUBLIC ADMINISTRATION

Mr. Chairman and Members of the Subcommittee:

I am Scott Fosler, president of the National Academy of Public Administration (NAPA). It is a privilege for me to be here to participate in your deliberations on the National Performance Review (NPR).

It is both appropriate and timely that two years into the NPR, your subcommittee is beginning a series of hearings to consider the NPR's accomplishments and how it can be most effective.

NATIONAL ACADEMY OF PUBLIC ADMINISTRATION (NAPA)

The Academy is an independent, nonpartisan, nonprofit organization chartered by Congress to identify emerging issues of governance and provide practical assistance to federal, state, and local governments on how to improve their performance.

To carry out this mission, the Academy draws on the expertise of more than 400 fellows, who include current and former members of Congress, cabinet secretaries, senior federal executives, state and local officials, business executives, scholars, and journalists. Our congressional charter, signed by President Reagan in 1984, was the first given to a research organization since President Lincoln signed the charter for the National Academy of Sciences in 1863.

The Academy undertakes assignments at the behest of Congress and executive agencies. Recent Academy work for Congress has included reviews of the Environmental Protection Agency (EPA), Federal Emergency Management Agency (FEMA), the Department of Housing and Urban Development (HUD), and the General Accounting Office (GAO). Later this month the Academy will release the results of a

congressionally-directed study of the Global Positioning System (GPS) in the Department of Defense.

We would be happy to share with the Subcommittee these and any other project reports, and statements by Academy standing panels (including those specifically addressing issues germane to the NPR). My testimony today draws on this body of work to address the subject of this hearing.

THE NATIONAL PERFORMANCE REVIEW (NPR) IN PERSPECTIVE

Viewed in broad context the National Performance Review follows in a long tradition of initiatives to reform the organization and operation of the federal government (there have been at least ten in this century). The NPR also is akin to restructuring initiatives undertaken in recent years by virtually every sector of society, including businesses, nonprofit organizations, state and local government, and the governments of America's trading partners.

This nearly universal institutional restructuring is driven by now familiar forces: new technologies, changing markets and demography, global economic competition, the increasing importance of knowledge and information, and the fragmentation that derives from specialization and the division of labor. Governments, moreover, are contending with the simultaneous increase in the demand for public services and growing resistance to taxes.

The responses to these forces are also strikingly similar. The Organization for Economic Cooperation and Development (OECD) has found common trends among the government restructuring efforts in 22 countries, including: focusing on results and costs; improving services and customer orientation; performance targeting, budgeting, measurement, and management; and better use of information technology. This package of concepts and techniques is now widely characterized as the "new public management" movement. The NPR falls squarely within this movement, and indeed is frequently viewed as a catchup effort by foreign governments that have been actively restructuring for a decade or more.

ROLE AND MISSION OF THE NPR

The President and the Vice-President, who leads the NPR, define its role and mission as making government "work better and cost less." These are the principal considerations of "effectiveness" and "efficiency" that have driven most of the other federal government management reform efforts in this century.

Phase I of NPR focused on the question of "how" government works. It addressed such classic elements of government operation as systems, processes, and people, placing special emphasis on improving government service to "customers."

Phase II of the NPR, announced by the President in December, 1994, and elaborated in a January 3, 1995, memo from the Vice-President to agency heads, underscores the concerns with how government works, adding a special interest in improving the regulatory process.

But Phase II also expands the NPR's concerns beyond "how" government works, to "what" government does. Specifically, it asks whether government should cease doing certain things, by privatizing them, devolving them to state and local government, or simply terminating them.

GOALS AND ACCOMPLISHMENTS

The NPR has established several goals and targets by which to assess its own performance, and claims progress toward achieving them, including:

- position reductions of 105,000 of a targeted 272,900 (which Congress increased from the initial NPR target of 252,000);
- $63 billion in savings of an anticipated eventual total savings of $108 billion;
- improvements in key administrative systems, including personnel and procurement;
- progress towards an intended 50 percent reduction in "internal regulations;"
- implementation of 25 percent of specific recommendations;
- establishment of customer service standards in 150 agencies;
- initiation of 130 "reinvention labs" designed to experiment with better ways to operate;
- "reinvention" of specific agencies, including the Customs Service and the Bureau of Reclamation; progress toward restructuring others; and the formulation of plans for still others, such as the proposed corporatization of the air traffic control system and the Federal Housing Administration;
- changes in the culture of federal agencies, by "empowering employees" and legitimizing positive, performance-oriented behavior;

- plans in Phase II to cut and consolidate programs, and to reorganize whole agencies and departments, including Housing and Urban Development, Transportation, and Energy, and agencies such as FEMA.

NPR officials estimate that they are probably about a quarter of the way toward a wholly "reinvented" federal government.

Determining both the reality and the implications of some of these claimed accomplishments naturally requires verification, evaluation, and judgment. For example, concluding whether a government agency has been "reinvented" or otherwise brought up to peak performance depends on what criteria are applied. The proposed consolidation of programs in the Department of Housing and Urban Development, for instance, is a significant move toward the clarification of HUD's core mission and objectives. However, the proposed consolidation of administrations in the Department of Transportation may contradict the principle—widely followed in recent government restructuring abroad—that basic operating units should focus on a limited number of clearly compatible objectives.

Some of the more measurable targets are themselves problematic. For example, position controls (regulating the number of full-time equivalent, or "FTEs" an agency can have) can create serious management problems, a point that the NPR report itself recognizes. To begin with, "FTE ceilings" can quickly become "FTE floors;" agencies that should be substantially reducing their workforce may be protected from doing so by fixed FTE allocations. "Managing to position" can also result in across-the-board cuts in agencies with growing as well as declining workloads; the loss of people with important expertise; the retention of people with outmoded skills; and the failure to hire new people with needed skills, perspectives and energy.

Agencies may resort to contract work just to reduce FTEs, even if contracting cannot not save money or improve performance. To make matters worse, agencies may avoid hiring employees skilled in negotiating and monitoring contracts, a certain formula for corruption as well as poor and costly performance. And since all "FTEs" are counted as the same whatever grade level, agencies are encouraged to retain high level and more costly positions when lower skilled and less costly personnel would suffice.

NPR officials recognize these problems, but believe that some agencies, such as the Department of Interior, Customs Service, and General Services Administration (GSA), have demonstrated that it is possible to avoid them.

Am important omission is the definition of goals or means of determining whether the changes proposed by NPR ultimately will produce results for the American people across the broad array of government programs and actions. To be sure, well-formulated customer service standards constitute important results in and of themselves in those instances where government is engaged in direct service delivery. And the NPR's embrace of the Government Performance and Results Act (GPRA) is an important step toward clarifying and measuring results across a broad range of government programs. But how will the federal government determine if the many actions it takes and programs it funds, whose outputs or outcomes are not immediately or easily measurable, are contributing in a cost-beneficial way to their intended public purposes?

How can we be sure that the NPR—whose laudable objective is to shift from a preoccupation with procedure to a focus on results—does not itself slip into advocacy of yet another generation of procedures that become detached from results?

ACCOUNTABILITY

The NPR raises several important issues of accountability.

First, the drive to empower employees, respond to customers, and encourage entrepreneurship, all need to be accompanied by clear measures of performance and means of holding employees accountable for results. This will also require a culture which tolerates reasonable and responsible risk-taking in pursuit of mission results.

Second, individual performance needs to be linked clearly to agency or organizational performance. "Performance management systems" for individuals need to be linked systematically to "performance management systems" for agencies, of the kind required by the GPRA. (The GPRA is an important tool for deregulation and decentralization of responsibility, and so needs to be effectively implemented.)

Third, the definition of agency performance must be derived from statutory mandates established in public law. The NPR's focus on the "customer" is a useful means of drawing agencies' attention to satisfying the people they are supposed to serve, but it cannot be permitted to divert agencies and employees from their responsibilities to define customer service in the context of law and to meet other statutory requirements.

Fourth, employees need to be held accountable for important values other than effectiveness and efficiency. Even effective performance systems are unlikely to provide foolproof and exclusive means of determining whether important goals have been achieved, especially in those government operations where the "bottomline" is difficult to measure. Central management agencies and top managers need to be attuned to questions of process in order achieve effectiveness and efficiency. But the values of effectiveness and efficiency also need to be balanced with the protection of such democratic values as honesty and fairness, and such institutional values as resilience, adaptability, and the knowledge and flexibility to address unforeseeable challenges.

Fifth, the National Performance Review itself needs to be accountable. The NPR is directly accountable to the Vice-President, and through him to the President. The President established the NPR as an interagency task force using employees detailed from agencies. This is certainly acceptable as a one-time, short-term undertaking. But should it become a permanent entity, it could raise questions as to the NPR's responsibility vis-a-vis entities constituted by law to perform similar functions, such as the Office of Management and Budget (OMB), with its Deputy Director for Management (DDM).

As part of the executive branch, the NPR is also responsible to the Congress. The challenge to Congress is to determine how to play a constructive role in support of the shared goals of the NPR while also holding the overall effort accountable. Over the long run, the intent of the NPR is that Congress shift its oversight from a preoccupation with inputs toward the assessment of the results achieved by federal agencies, based on goals set by the Congress. For example, Vice President Gore has invited the Congress to focus on customer service standards in its oversight hearings.

IMPLEMENTATION

If indeed the NPR is similar to restructuring efforts of other institutions in both the public and private sectors it is worth considering that those efforts. taken as a whole, have tended to follow a common sequence of responses.

First, when confronted with pressures for change, most organizations simply deny them or presume that they will soon go away.

Second, when the pressures persist, they engage in incremental adjustments, or "patching" problems, as Peter Drucker has put it.

Third, organizations take deep, cost-driven cuts into their existing structure and resources. Such radical downsizings have yielded mixed results at best. Some organizations have found that major layoffs of employees were insufficient to meet competitive cost pressures. Frequently, they were forced to cut even more. Many businesses have discovered they had discarded employees needed to run their business and generate revenue, including high performers who were the heart of their operation. In short, they had engaged in "amputation before diagnosis."

The typical consequence is that organizations end up with a smaller version of what did not work before. Many of the remaining employees, moreover are left angry, uncertain, mistrustful, depressed, and overworked, all of which add up to a demoralized workforce expected to take on even greater burdens. If employees fail to rise to the occasion, organizations in these circumstances tend to search for the silver bullet—usually the latest management fad—that will solve their problem.

Fourth, organizations return to the fundamentals of performance: mission, capacity, and results. Organizations in this stage ask fundamental questions about purpose: What is our mission? Who are our customers? Do we have the right mission and the right customers? What resources, processes, and other capacities are required to produce results with quality, speed, and at least cost? How should we define our mission given the resources and competencies available to us?

The emphasis on performance in no way ends the concern with cost, or pressures to downsize. But by focusing on what they should do—identifying core purposes and missions, and strengthening their core competencies—organizations have been able to cut costs by:

- abandoning entire missions and lines of business;
- jettisoning marginal or unproductive resources that were not contributing to their basic Purposes;
- outsourcing necessary work that can be performed by other organizations better or at less cost; and
- reengineering work processes, often by employing information technology, and thereby sharply reducing the resources required to accomplish core missions.

In short, in the fourth stage, organizations are not merely restructuring, reinventing, redesigning, reengineering, and otherwise reforming themselves. They are also fundamentally rethinking their basic purposes and means for achieving them. The most successful ones—recognizing that the process of restructuring is a long, solitary struggle—are committed to continuous improvement.

Placing the federal government as a whole within this sequence is difficult because it is a vast and varied institution. Some parts of the federal government have gone through substantial restructurings that reduced costs and improved performance. The military, for example, both downsized and improved its ability to perform in such combat missions as Desert Storm. Examples can be found in civilian agencies, as well. Indeed, at a time when the public's confidence in government has reached all-time lows, we should take care to avoid portraying the whole federal government as inept and unable to carry out important functions which in fact are competently performed.

But taken as a whole, the federal government has yet to reach the fourth stage of fundamentally rethinking its purposes. Phase II of the National Performance Review appears to be moving in that direction. And the 104th Congress clearly is asking fundamental questions about the role of government.

The key question is whether the federal government will leap-frog the unproductive middle stages of the common path of restructuring and go directly to the issue of performance.

A FRAMEWORK FOR PERFORMANCE

To move successfully toward addressing fundamental questions of performance, the NPR will need a clearly articulated framework, or at least a robust set of principles that can drive the effort. The four principles articulated for Phase I (putting customers first, cutting red tape, empowering employees, and cutting back to basics) may have offered a practical way of focusing the initial NPR agenda. But they do not provide the scope, depth, or staying power to drive and sustain the effort. The "decision tree" suggested in Phase II—which asks such key questions as whether program missions are appropriate to the federal government—moves in the right direction, but does not go far enough.

The Academy suggests a framework in an appendix to this testimony. It begins with public purposes, and asks first what institutions other than government—including business, nonprofit organizations, and civil society—can best achieve those public purposes. To the extent there is a legitimate government role, it asks whether state and local governments can better perform that role. If there is a federal role, then an additional series of questions regarding organizational design and appropriate performance capacities need to be addressed. Such a framework also suggests the need to examine entire policy areas in a more comprehensive manner, such as the Academy has done in its recent studies of EPA, HUD, and FEMA.

Against such a framework, current federal programs and activities can be screened according to the following considerations:

1) Keep and strengthen those programs which fit a federal mission and which work, or can be made to work, consolidating programs and eliminating duplication where appropriate, and reengineering core processes.

2) Terminate those programs which do not fit a federal mission and do not work, or cannot be made to work, or do not work at reasonable cost.

3) Privatize or devolve those programs which work and have value but do not fit a federal mission.

4) Give further consideration to those programs which do not fall clearly into one of the first three categories.

Cases requiring further consideration include programs or activities that are not working well but might serve a federal mission if they could be made to work. These require special examination, and should be given a regimen and time-schedule for improving their performance, as an Academy panel recommended for HUD.

Other cases warranting further consideration include those problems that require some kind of federal response, but about which too little is known to determine exactly what to do. For these, it may make sense to experiment and find out what works and what does not. For example, political scientist James Q. Wilson suggested in a Wall Street Journal article that nobody really knows what kind of welfare program will work, and recommended that the states be permitted to experiment widely, with minimal federal involvement, to discover arrangements that work.

CAPACITY

While setting an appropriate direction and design for restructuring is essential, the NPR also needs to assure that the necessary capacities are developed to make it work. Three kinds of capacities should receive priority attention.

The first and most critical capacity is people with the right skills. Current personnel processes frequently are a barrier to attracting and retaining the best people. Needed reform legislation to improve these processes is under development by the Administration but to date has not been forthcoming. The Academy is currently completing a project on behalf of a consortium of 32 agencies that will identify changes needed to make the personnel system more responsive to mission results.

The National Performance Review's initial call for a reduction of 252,000 positions was based on the assumption that 350,000 positions could be eliminated but that 100,000 new positions providing new skills would be created. This point seems to have been completely lost.

The GPRA also recognized the need to train current employees in the development and use of performance measures. But to date there has been no such organized training.

Businesses going through restructuring regularly have discovered that they needed to invest heavily in providing new skills to employees. Top-rated companies commonly invest as much as 10 percent of payroll costs in training and development. By contrast, the federal government spends .75 percent of payroll costs.

The problem for the federal government is all the greater since career professionals no longer fill the highest policy and management positions, a condition that has been central to the design and implementation of major restructuring in both business and other governments. High-level professionals have been particularly important in the restructuring of other national governments. The U.S. federal government is the only major industrial government where political appointees—currently some 4,000—go so deeply into public agencies.

The conventional wisdom—and political theory—is that the President needs a large number of political appointees in order to implement his or her policies throughout the executive branch. But whatever truth this assumption may have had in the past, the reality today is that the large number of political appointees may actually give the President less control and ability to carry out his policies. Political appointees often lack the knowledge and experience required to manage large and complex organization; turnover among political appointees is high, so they are unlikely to have a sustained impact in improving management; and some respond more to their political sponsors, and their own agendas, than to the will of the President. Academy panels and the National Commission on the Public Service (the Volcker Commission) have recommended that the number of political appointees be sharply reduced.

The second type of capacity is organizational.

One of the conspicuous gaps in the NPR is the lack of examination of the roles, missions, and capacities of central management agencies and of the Executive Office of the President more generally.

The principal formal responsibility for management in the executive branch currently is lodged in the OMB, in particular in the Deputy Director for Management (DDM). As part of its recent reorganization (OMB 2000), OMB shifted most of its management staff to newly named Resource Management Offices (RMOs) with the intention of strengthening the program and management orientation of its budget examination function. Combining management and budget functions in this way challenges the conventional wisdom that in such circumstances budget considerations inevitably drive out serious attention to management. However, the leadership of OMB—persuaded by the importance of improving performance and management in order to constrain costs and achieve policy goals—argues that this is the most effective way to integrate management and budget concerns. Whether such an organizational arrangement will achieve that end depends principally on the effectiveness and resolve of the OMB leadership and the support it receives from the White House.

In the meantime, through the NPR process a cadre of some 200 federal employees has been applying and increasing its knowledge about the organization and management of government. In essence, the Executive Branch has been rediscovering the value of a central management staff with first hand knowledge of how programs and agencies work, and of the principles, practices, and techniques of effective management (features similar in some respects to an office of federal management long advocated by some management experts).

While the Administration apparently views the NPR staff as temporary, it should consider preserving and more fully developing some form of this general manage-

ment capacity, and clarify the appropriate roles for its use among central management agencies, departments, and agencies. Most successful private and public improvement initiatives have depended on the decentralization of power to operating units, the equivalent of bureaus or similar agencies in the federal government. However, central organizational capacity is also needed to take on the continuing responsibility for implementation, modification, or regulation of specific NPR proposals. Sustained work by a knowledgeable staff with across-the-government perspectives could help to produce the best results from the reinvention effort.

Related issues of organizational responsibility and capacity also need to be addressed for such systems as budgeting, financial management, human resource management, procurement, information management, asset management, performance management, audit and evaluation, and the technical assistance and training required for these and other functions. Equally important is the need to integrate these systems—and the various independent initiatives that are attempting to reform them—at appropriate government-wide, department, and agency levels. Such an effort involves all of the central management agencies, including the Office of Personnel Management and the General Services Administration, each of which is engaged in its own reform efforts. But the principal responsibility for seeing the system whole and assuring the integration of related reform efforts falls to OMB.

And, indeed, the OMB leadership has been giving increasing attention to these over arching issues. For example, the NPR established Chief Operating Officers (COOs) in each of the departments and major agencies; the COOs in turn comprise the President's Management Council. The Chief Financial Officers (CFOs) and Inspectors General (IGs) also have their own councils. The Deputy Director for Management, as the focal point for these three councils, appropriately views the integration of their agendas as an opportunity for bringing greater coherence to management improvement efforts across the government and within departments and agencies. Such integration should also include related initiatives for the other management systems as well.

Indeed, if the NPR is to be successful, such basic questions of organizational responsibility and capacity for the increasingly ambitious and wide-ranging reform agenda—questions of leadership, systems development and integration, technical assistance and training, and oversight—will need to be addressed across the broad range of reform initiatives and management responsibilities.

The third type of capacity concerns the ability of Congress and the executive branch to work together to create a high-performance federal government.

In recent studies for Congress of HUD, EPA, and FEMA, Academy panels concluded that one of the principal obstacles to effective management in the executive branch was lack of clear direction and reasonable and consistent oversight from the Congress. While the two branches of government each have their own responsibilities, they also need to work together to provide a machinery of government that will permit each branch, of whatever political persuasion, to formulate and implement policy in an effective and efficient manner.

Here again, the GPRA should help both the Congress and the executive branch to apply discipline to the definition, measurement, reporting and assessment of results.

In the meantime, the Congress needs to build its capacity to better understand the operations of the executive branch, and to help design and oversee the complex organizational changes that are underway, and can be expected in the future.

An Academy panel also has addressed other ways in which the Congress and executive branch can build bridges to improve its working relationship.

CONCLUSION

Mr. Chairman, the National Performance Review is an ambitious attempt to restructure the federal government, in keeping with the tradition of previous reform efforts in this century and world-wide efforts among institutions in all sectors to address contemporary challenges.

The movement from the Phase I concern with "how" government works to the Phase II concern with "what" government does is an appropriate and constructive expansion of scope.

But if the NPR is to consolidate its gains to date, and sustain the energy and initiative it has brought to the task of improving the federal government, it will need to address key issues of accountability, sharpen the definition of its framework and principles, and build the capacity required to carry out this task over the long run. It will also need the support and partnership of Congress in what can only succeed as a joint effort to make the federal government fully capable of performing in the interests of the American people.

APPENDIX TO STATEMENT BY R. SCOTT FOSLER

RETHINKING THE FUNDAMENTALS OF GOVERNMENT

Rethinking the federal government's performance fundamentals requires asking basic questions about purpose, mission, and results; organizational structure; performance capacities; and individual programs and activities. Put another way, what are the mechanics of what needs to be done? The following is an illustrative set of questions.

Purpose and Mission

What is the public purpose? The Constitution defines the basic public purposes of the United States, and of the federal government. Foremost among these is to "preserve, protect, and defend the Constitution" itself. But the Constitution leaves wide latitude in its definition of other public purposes, such as economic growth, public safety, safe and affordable housing, good transportation, and a clean environment. To be sure, these purposes are not the exclusive preserve of any government, let alone the federal government.

The federal government should first attend to its unambiguous constitutional responsibilities for national defense and protecting the constitutional rights of American citizens. It has important roles for matters which cross state lines, such as air pollution and air traffic control, and instances in which nationwide consistency and equity are necessary, such as Social Security. And it must be concerned about the country's overall economic strength and the government's fiscal soundness.

If any federal program or activity is not addressing a public purpose, it should be terminated. But simply addressing a public purpose does not necessarily justify its continuation.

Defining public purposes is appropriately and necessarily a political function. Unfortunately, our mechanisms for building and communicating political consensus on public purposes, and distinguishing them from government missions, are not working.

Which sector of society should be principally responsible for given public purposes? Our Constitution and traditional culture presume that individuals should be left to pursue their own interests, both private and public, unless a compelling case can be made for government action. There are many institutions that help meet public needs, including:

- civil society, or the civic sector, in which individuals act collectively through their families, communities, religious institutions, voluntary groups, civic organizations, and a multitude of other associations;
- market economy, or the private sector of businesses and other economic organizations that produce goods and services and provide employment and income to individuals; and
- government, whose roles include making authoritative political decisions and enforcing them, providing the framework for civil society and a market economy, and providing some services directly.

Of the governmental responsibilities, which level of government—federal, state, local, or regional—should assume them? The 10th Amendment to the Constitution presumes that whatever powers are not specifically given to the federal government reside with the states and the people. In recent years, the courts have ruled that there is very little in which the federal government cannot involve itself. Therefore, the federal government must set its own limits.

Practical questions of economics, finance, and operational effectiveness—if not the changing political climate—are forcing us to rethink the appropriate roles of the various levels of government, including the "devolution," "sorting out," or "swapping" of primary governmental responsibilities for such areas as welfare, health, transportation, housing, economic development and the environment.

Given the federal role defined in this context, what are the specific missions, goals and expected results for federal programs and activities? The federal role can take several forms, including:

- Creating the framework for a healthy civil society and a competitive and productive market economy. Are there more cost-effective approaches to regulation, such as the market mechanisms discussed in the Academy study, The Environment Goes to Market?
- Creating a more productive federalism in policy areas that require intergovernmental participation by limiting unfunded mandates; making more effective use of block grants; and clearly identifying and carrying out such specific responsibilities as planning, goal-setting, financing, information gathering, benchmarking, or assessing activities that are principally state and local operating responsibilities.

• Promoting cooperative interaction among the sectors and levels of government through the use of public-private partnerships and collaborative problem-solving.

• Providing those direct services that the federal government can do most effectively and efficiently, such as Social Security and the operation of national parks.

All of the above types of federal activities should specify the results they intend to achieve, including the outputs of government organizations, the social or economic outcomes to which they contribute, and their impact (i.e., the difference between what happened and what would have happened without government action).

Organizational Design

The achievement of results depends on the type of organization to which programs are entrusted. Even within the federal sector, there is a wide range of organizational options, including:

• Executive departments, which typically are an agglomeration of operating units that serve a broad federal mission. In an evaluation of the proposed elevation of the Veterans Administration to a cabinet department, an Academy panel offered a set of generic criteria for helping to determine whether any agency should become, or remain, a cabinet department.

• Agencies, which are supported by appropriations, can be designed in a wide variety of ways tailored to specific missions, and can employ an array of tools, such as franchises, vouchers, contracting out, regulation, and internal competition.

• Government corporations, such as Amtrak and the Tennessee Valley Authority, which generate revenue, can benefit from the discipline of a well-designed corporate structure even if they receive a subsidy. Academy panels have recommended the corporatization of several federal agencies, or parts of agencies, such as the Bonneville Power Administration, the Naval Petroleum Reserves, the Federal Aviation Administration (FAA), and, most recently, the Federal Housing Administration (FHA).

• Government-sponsored enterprises, such as Fannie Mae, which are privately owned and for-profit, enjoy benefits not accorded to other businesses in exchange for the pursuit of a specific public purpose.

Performance Capacities

The ability of federal organizations to carry out their missions effectively and efficiently depends on their performance capacities. This is a critical part of the decision-making process that is too often ignored. Keeping the mission while cutting the capacity to perform is self-defeating. Actually, after large cuts are made, the capacities required to carry out the remaining missions may need to be reenforced.

In a large body of its work, NAPA has examined the performance capacities of numerous federal organizations, and recommended ways to strengthen them. The basic management framework and philosophy the Academy has espoused in that work includes the following key imperatives of performance capacity:

• clearly define missions and goals, derived from public law, placed in the context of long-term strategic thinking, and refined according to such considerations as customer service:

• specify the intended results and measures by which performance will be assessed;

• recruit and develop capable people, with the appropriate leadership, managerial, technical, and operational skills;

• develop effective and integrated management systems, including budgeting, financial management, information management and technology, human resources management, procurement, program management, and auditing;

• give managers the resources, latitude, and incentives to manage;

• benchmark performance with similar operations, including those of the best—or better—performers;

• build incentives and culture for continuous improvement by involving those who do the work, customers, and suppliers in the change process and tolerating reasonable mistakes and risk-taking;

• regular reporting of results to responsible officials; and

• hold people accountable for results; and reward them according to their performance with compensation, recognition, promotions, redeployment, demotions and terminations, as appropriate.

Based on these criteria, many federal organizations are seriously deficient in performance capacity. In most cases, the problem is not that they are unable to develop

such capacities, but that they have not been given the direction, incentive, resources, or latitude to do so.

Every federal organization should be regularly tested against such criteria. And before any new federal policy is adopted, it should be subjected to the test of whether the federal government can and will create the performance capacities required to make it work effectively and efficiently.

Mr. HORN. Thank you very much. We will recess for approximately 10 minutes.

[Recess.]

Mr. HORN. The hearing will resume. I apologize for the delay, but that's democracy in action. So go ahead, Mr. Kettl.

Mr. KETTL. Thank you, Mr. Chairman. It's a great pleasure to appear before this subcommittee this morning to discuss the Reinventing Government initiative of the Clinton administration.

I'm a professor of public affairs and political science at the University of Wisconsin at Madison and a nonresident senior fellow at the Brookings Institution Center for Public Management, where we've been conducting an ongoing study and survey of the National Performance Review. As I'm here this morning, I want to make four basic points.

The first is that, indeed, the National Performance Review has made substantial progress in reforming government over the last 18 months.

The second is that although the National Performance Review has achieved substantial savings, the drive for short-term savings risks hurting government performance and can cost more in the long run.

Third, the progress is not self-sustaining and many critical questions remain to be answered.

And fourth, although there are many potential sources of answers to these questions, from experiences abroad, from reforms in American, State and local governments, and from restructuring in the private sector, these answers are often at best a poor fit. In some cases, the prescriptions are fuzzy; in other cases, they are a poor fit for the often unique and daunting problems with which the Federal Government must deal.

As we've heard earlier on the first point, we have in fact accomplished a substantial amount. One thing that I think deserves a lot more attention than in fact it's received so far is the considerable effort made in the reinvention laboratories around the country, which have become the great proving grounds for success. There is widespread innovation afoot in more than 100 labs, producing evidence that the Federal Government can be substantially changed.

On the second point, on the matter of trying to judge the savings, there are two things that I want to say here. The first is that although in fact we have substantially downsized the Federal bureaucracy already and there's undoubtedly more downsizing on the way, only rarely have these cuts been made in a way that reflects any careful thought about which cuts ought to be made, where the Federal Government can be successfully downsized, and which capacity needs to be strengthened. This, I fear, suggests the need for much more careful thought and the potential for greater cost and risk in the long run.

These reductions, and this is my second point here, run the risk of hurting government performance in the long run—in part be-

cause of the risk we'll cut the wrong people in the wrong places, and not have enough of the right people in the right places. That will create shock and survivor syndrome that will hurt the ability of the government employees themselves to perform.

And furthermore, we haven't thought carefully about where the government needs to be cut. Consider, for example, the Pension and Welfare Benefits Administration of the Department of Labor, which is suffering cuts just like everyone else but where a total of 621 Federal employees are responsible for supervising $1 trillion worth of private pension funds. This is a place where perhaps we need even more Federal employees, but the idea of thinking carefully and strategically about where we need to marshal the Federal Government's manpower is something that for the most part has not happened.

The third point raises critical unanswered questions, and I'll only touch on a few. First, what kind of civil servants do we need to make government work better? If there's any lesson we can draw from any experience anywhere, public or private, United States or abroad, it's that senior leadership within the country or organization is absolutely critical. And that's one of the things that in fact has been most lacking in the National Performance Review, a careful look at how to ensure that the right kind of leadership is in place.

Second, who is going to be in charge of making the reforms work? If there's anything that we've also learned, it is that somebody has to be in charge of making tough calls. There has been a serious problem there of building the internal capacity.

The capacity issue is also something we need to worry about. The Department of Energy manages billions of dollars worth of contracts, yet the evidence is that it doesn't have the capacity to do the job well. Without the right kind of capacity it is likely, in the long run, to end up costing even more.

The lesson from this is that in fact we can reform government but that we run the risk of seeking quick wins and symbolic results and learning the wrong lessons in the process.

If we're going to succeed, we need to focus on the right questions, which means, I think, focusing on the performance and, in the end, understanding that reform is not a one-time-only event but a long-term proposal. Unless we approach it that way, we surely will not produce the kind of results that we want.

[The prepared statement of Mr. Kettl follows:]

PREPARED STATEMENT OF DONALD F. KETTL, THE BROOKINGS INSTITUTION

It is a great pleasure to appear before the Subcommittee this morning to discuss the Clinton administration's "reinventing government" effort, the National Performance Review (NPR). I am a professor of Public Affairs and Political Science at the University of Wisconsin-Madison's Robert M. La Follette Institute of Public Affairs, and a Nonresident Senior Fellow in the Brookings Institution's Center for Public Management. At the Center for Public Management, I have been conducting a long-term review of the NPR.

I want to make four fundamental points in my testimony here this morning.

- First, the NPR has made substantial progress in reforming government over its first 18 months.
- Second, although the NPR has achieved substantial savings to date, the drive for short-term savings risks hurting government performance in the long run.

- Third, the progress is not self-sustaining, and many critical questions remain to be answered.
- Fourth, although there are many potential sources of answers to these questions—from experiences abroad, from reforms in American state and local governments, and from restructuring of the private sector—these answers are at best a poor fit. In some cases, the prescriptions are fuzzy. In other cases, they are a poor fit for the often unique and daunting problems with which the federal government must deal.

Not in a generation has American government faced such fundamental questions, and never has skilled public management been more important in trying to answer them. An April 1995 Hart-Teeter public opinion survey shows that public confidence in the federal government is precipitously low. Americans ranked wasting money through mismanagement as their biggest complaint about the federal government. The good news is that a large majority—73 percent—believed that the federal government could be more effective if it were managed better.1 Figuring out how to do that is the challenge for this hearing.

ASSESSING THE CLINTON ADMINISTRATION'S EFFORTS

Many cynics quickly dismissed Vice President Al Gore's NPR when the report appeared in September 1993. Some critics suggested it was just another in a long line of management reforms that would produce little effect. Some academics criticized it as dangerous to the public interest. Both are wrong. In its first 18 months, the NPR has produced some impressive results, in several important categories.

- A quick start on culture change. The report's theme that government had to work better and cost less resonated profoundly. Measuring the precise impact of the report on the culture of government agencies is impossible, and making such an ambitious change stick will take a generation. But one conclusion is already certain: After the report, neither the behavior of government workers nor the debate about their jobs can ever be the same. The NPR's four key principles—cutting red tape, putting customers first, empowering employees to get results, and cutting back to basics—has provided new, if rough, guideposts by which to steer and judge the federal bureaucracy.
- Simplification of rules and processes. The NPR has also helped disentangle some of the rules and procedures that hinder effective federal management. The Office of Management and Budget has issued waivers to agency officials surveys to assess citizen satisfaction with public services. The Office of Personnel Management eliminated the huge Federal Personnel Manual and the government's monstrous all-in-one application form, SF–171, and has delegated more personnel decisions to government agencies.
- A reform of the procurement process. The Clinton administration's enthusiastic support and hard work dovetailed with ongoing congressional effort on procurement reform. The result has been an important simplification of the procurement process—the first major reform of the government's contracting rules and procedures in a decade.
- Improved coordination of the governments management activities. The President's Management Council (PMC) has helped provide a forum for ongoing review and coordination of management in the executive departments. Comprised of the chief operating officer within each department (typically the deputy secretary), the PMC quickly proved an invaluable arena for discussing crosscutting management problems, developing new strategies, and building support for reforms. The PMC has become an important mechanism for focusing government-wide attention on management issues.
- Widespread innovation by federal managers. The NPR encouraged agency heads to establish "reinvention labs," and more than one hundred sprang up throughout the government. While there is no systematic survey of what these labs have accomplished, conclusive evidence shows that these reinvention labs represent exciting innovations in the federal government. Not all of the labs are likely to produce successes; the whole point of laboratory experimentation is to find what works and what does not. But the labs are generating a mountain of fresh ideas and information about how government workers can do their jobs better.

The NPR has unquestionably generated an enormous amount of activity, enthusiasm, and positive effort. Not all of the initial results can be traced directly to the NPR. Indeed, some of the earliest successes came from experiments started during the Bush administration. The NPR, however, unquestionably accelerated the pace of change and provided political cover for managers trying to break out of hidebound routines. Most important, the NPR generated a fresh sense of the possible.

Managers were amazed that ideas that had lain fallow for years suddenly sprang to life. Small but important reforms that top managers had previously dismissed suddenly received higher-level approval. The frenzy of activity did not convince all of the cynics, especially long-time mid-level government workers who had watched waves of reform wash over the bureaucracy for years without effect. But the NPR unquestionably fueled new excitement and energy.

GAUGING THE SAVINGS

The first 18 months of the NPR has generated more progress than almost anyone—indeed, perhaps more than the reinventers themselves—imagined possible. To get the NPR moving, the reinventers understandably made short-term tactical decisions to get quick wins. The quick wins however have come at the cost of building the foundation for lasting success. As a result the NPR is not now sustainable.

The core of the problem lies in the NPR's very mission: to create a government that works better and costs less. From the first days of the effort, the twin goals have been in constant tension. On one level, of course, they are perfectly compatible. A government that works better should cost less. The trick lies in the route chosen to reach the objective. Most strategies to make the government work better produce cost savings only after the reforms become established. On the other hand, many strategies to shrink costs in the short run can hurt performance.

In the first year of the NPR, the defining reality quickly became the promised $108 billion in savings. The most immediate and visible of these savings was to come through a reduction in the number of government employees by 272,900. The savings through reducing the federal workforce are real. But several points must be made about these buyouts.

First, by far the largest share of the reductions to date have come from the Defense Department, which was already undergoing a substantial downsizing in the aftermath of the Cold War. In fiscal year 1994, nearly three-fourths of the 86,000 persons (full-time equivalent, or FTE) who left the federal government were civilian employees in the Department of Defense. In fiscal 1995, 98 percent of the 34,900 FTE positions scheduled for elimination will come from the Defense Department.2 It is very hard to separate the savings produced by the NPR's initiatives from those savings that would have come in any event from the inevitable reduction of the Defense Department's civilian workforce.

Second, even though the buyouts made available by other departments are much smaller, they have only rarely been driven by a careful plan about where cuts should be made. Much of the work-force reduction, in fact, fell into place before any plan had been approved. The federal government undoubtedly has too many bureaucratic layers, too many workers in the wrong kinds of jobs. The federal workforce undoubtedly could be reduced. But the reductions to date have occurred haphazardly, with little assurance that the jobs that should be eliminated are eliminated.

Third, as a result, there is a great risk that these haphazard reductions will hurt government performance in the long run. In part, this is because the very real shock of such a substantial work-force reduction—about one in eight federal workers—has shaken workers' morale. In part, this is because fewer workers are left in most agencies to do the same amount of work. In part, this is because the performance improvements promised in the NPR, which would have made workforce reductions possible, have yet to occur. And in part, this is because virtually no effort has been made to match the government's capacity, human and technological, to the job that needs to be done. This combination could well produce poor management of programs whose long-term costs could swamp the short-term savings.

This is a special risk in the two kinds of government work that most federal employees do: providing direct service to citizens, in programs like Social Security and Department of Veterans Affairs hospitals; and overseeing the work of contractors and grantees who in turn produce many of the federal government's goods and services. In the latter case, a small number of federal employees often leverages huge amounts of federal dollars and private assets. (See, for example, Table 1.)

Fourth, round two of the NPR, launched by the Clinton administration after its devastating setbacks in the November 1994 congressional elections, increases these concerns. Vice President Gore has challenged federal agencies to "put customers first" while "cutting back to basics" in an effort to produce even larger savings. Federal agencies have responded with bold plans to restructure their operations, reduce their headquarters staffs, realign field offices, and further reduce their employment. Round one promised a balance between the NPR's "works better" and "costs less" components; round two focuses overwhelmingly on the latter. The same is true of the sweeping restructuring in Republican proposals.

TABLE 1.—SMALL NUMBERS OF FEDERAL EMPLOYEES LEVERAGE HUGE PROGRAMS

- Pension and Welfare Benefits Administration, Dept. of Labor; *621 employees supervise $1 trillion in private sector pension funds
- Health Care Financing Administration, Dept. of Health and Human Services; *4,129 employees to manage Medicare ($176 billion in FY95) and Medicaid ($90 billion in FY95)
- Defense Contract Audit Agency, Dept of Defense; *5,138 employees to oversee $120 billion in defense contracts
- Food and Inspection Service, Dept. of Agriculture; *7,200 inspectors for 6,000 food processing facilities

In me short run, the NPR will unquestionably produce short-term savings, but the big puzzle is what effects the strategy will have over the long run. The worst waste of the taxpayers' money is to create ambitious programs but manage them poorly. The NPR now risks ringing up short-term savings at the expense of building the capacity needed to make government work better—and cost less—over the long haul.

UNANSWERED QUESTIONS

At the center of this risk are seven critical questions for which the NPR has not yet produced good answers.

1. What kind of civil service do we need to accompany these reforms? Creating a government that works better and costs less will depend ultimately on the government's ability to build the capacity to do the job. Government's problem is a people as well as a process problem. Real reform hinges on government's ability to find, attract, promote, train, guide, and motivate the workers needed to do its work. The Clinton administration has not yet defined how to reform the civil service system.

2. How can we make the up-front investment on which long-term savings often depends? Some savings, from improving defense contract management to reducing Medicare costs, government will need to invest in new technology. The incessant drive for deficit reduction, driven by the first round of the NPR and by the restructuring efforts—both Democratic and Republican—now underway, can make that investment impossible. Reengineering the federal government anticipates that advanced technology will make it possible to reduce the number of workers. The number of workers, though, is being reduced far in advance of even the promise of new investment. Getting it backwards risks driving costs up instead of down.

3. Who will be in charge of mating reform work? The NPR has been driven mostly by a skeletal staff supplemented by detailees rotating into its office. The strategy helped bring in fresh ideas and provided great energy. But it has neither provided sufficient ongoing leadership or the leverage needed to couple management reform with the executive branch's basic processes. Indeed, the NPR report argued that central management agencies, especially the Office of Personnel Management and the General Services administration, ought to devolve much of their power to the operating agencies. This tactic, however, provides no way to ensure that the accumulated decisions of millions of government employees are consistent with each other, the NPR's philosophy, the law, or the public interest. If government is to steer policy, someone will have to keep the compass. Moreover, any reform movement requires ongoing leadership to maintain it. What is not clear from the job is who will have either job. Without a central voice and strong leverage, the initial momentum will be hard to maintain.

4. How will the reform movement be coupled with congressional policy? NPR officials originally believed that they could pursue most of their actions without having to deal with Congress.

Several early cases, however, proved this wrong. Debate between Congress and the Clinton administration over the size of the workforce reductions increased the target from 252,000 to 272,900, but Congress also voted to exempt favored departments from downsizing. A Department of Labor plan to consolidate 154 federal job training programs foundered amid congressional opposition. NPR officials soon learned that they could not sustain any of their reforms without congressional support. The NPR has yet to develop a strategy for securing congressional cooperation for the reform effort.

5. How can public managers be encouraged to take risks when surrounded by media "gotcha" stories? Many of the NPR's goals requires bureaucrats to take more risks in the hunt for greater performance. The key is neither to take imprudent risks—putting taxpayers' money at risk—nor to avoid all risk—playing it too safe can paralyze performance—but to develop bureaucrats' judgments about what risks are prudent and to improve the system's ability to reduce the level of risk in general. Getting the balance right is very hard, especially given the penchant of the

mass media to focus obsessively on government's problems. Aggressive management sometimes produces problems. The news media all too often seizes on these problems as news, and television shows often present the problems as part of an ongoing pattern of poor performance. The media attention raises the salience of the problems to a level that neither members of Congress nor senior administrators can ignore. They respond with steps to try to ensure that the problems do not recur. This usually means tightening rules, limiting discretion, and increasing oversight, all of which runs counter to the reinvention movement's focus on empowering bureaucrats. Recurring cycles of perceived abuse-attention-crackdown has encrusted the ship of state with barnacle-like regulations that tend to pile up over time. These barnacles are hard to remove and makes the ship much more sluggish, more difficult to maneuver and especially harder to adapt quickly to rapidly changing problems. This is not an apologia for poor government performance. But if we want government management to improve, we have to find a way to encourage, even reward, government managers for taking the right risks.

6. How can we build the capacity to solve the special problems posed by high-risk programs? The NPR paid scant attention to the government's "high-risk programs," identified by both the Office of Management and Budget and the General Accounting Office, which have the potential for costing the federal government billions of dollars.3 The Department of Energy, for example, has more than $19 billion in contracts under management by major firms and academic organizations. Careful control of these contracts has been a major and ongoing problem. Savings from solving these and other management problems would swamp the savings promised through the NPR. Money saved by avoiding future management problems, however, will not show up on the budget as savings. It cannot be scored by CBO. Nor can members of Congress take credit for saving it or turn around and spend the savings elsewhere. The money saved is real, but expenses foregone do not travel politically as well as bureaucrats shown the door. Without a sustained attack on high-risk programs, their long-term costs could easily swamp the savings the NPR seeks.

7. How can we learn the lessons of reform: which changes work; and which ones should be avoided? One of the most remarkable features of the NPR is just how much positive activity it has generated. No part of that activity has been more remarkable than the inventiveness thousands of government employees across the country have shown in the reinvention labs. The NPR has worked hard to gather success stories from these labs, but the NPR's reaming strategy is embryonic. There has been little systematic effort to learn what the labs, or the broader reinvention movement, have to teach.4 A Department of Veterans Affairs reinvention lab in Milwaukee, Wisconsin, for example, has found a way to restructure the procurement process, improve everyone's satisfaction, and save $2.8 million on contracts valued at $33 million. In the process, the lab developed some extremely innovative strategies for solving nagging problems. The NPR, however, has devised no way to reach out, collect the information about what works best, digest it, and figure out how to sharpen the principles of reinvention.

FINDING ANSWERS

The NPR has produced great energy, real savings, and important reform. Along the way, however, it has raised far more questions than answers. The federal government, of course, has not been alone in this problem. Reform has become the universal driving force of management—federal, state and local; public and private; in the United States and abroad. It is scarcely surprising that federal reformers have looked broadly in the search for answers.

Rich reforms have spread around the world, but the lessons are anything but clear. Consider the following.

Lessons from the States

In the state of Oregon, the "Oregon Benchmarks" program committed state officials and citizens to defining policy objectives, defining measurable indicators, and building partnerships to accomplish goals. The program is fascinating and represents the most aggressive application of performance standards in American government today.5 It has also served as the foundation for a far-reaching memorandum of understanding with the federal government (reached in December 1994) to provide greater flexibility in spending grant money in exchange for performance reporting. As fascinating as the Oregon experiment is, however, the results are-not in.

Many of the Oregon targets are very different from typical federal programs. It is not yet clear, therefore, just how applicable to federal reform the Oregon experience will be. The federal government, in most of its programs, is far removed from direct service delivery. It would have a much harder time defining targets, assigning

responsibility for results, or holding all of those involved responsible for outcomes. Nevertheless, the experience of Oregon and other states developing performance-based management suggests that a movement like the federal Government Performance and Results Act could prove extremely helpful in improving outcomes.6

The performance-based management process it has introduced does offer a very valuable foundation on which to build more performance-based intergovernmental partnerships, like the one the Clinton administration signed with Oregon officials.

Lessons from the Private Sector

For a decade, private companies have aggressively downsized and reengineered their business processes. The results, however, have often been disappointing. Reengineering expert James Champy found that many of the organizations he studied failed to reach their targets by as much as 30 percent.7 A 1993 survey by the Wyatt Company, of 531 American companies, revealed that 86 percent of the companies surveyed had downsized their work forces and 73 percent had reorganized their operations. Four in ten failed to reduce their costs as planned; fewer than half of the companies with other goals, including increasing profits and employee productivity, managed to achieve them. Wyatt's researchers found that "few companies achieved their profitability and expense reduction goals through restructuring, and morale and motivation among the surviving employees suffered."8 Some companies succeeded, but they were the companies with strong motivation, a clear plan, effective leadership, and sensitive management of their employees.

- Public and private enterprises are so different, however, that drawing lessons is deceptively difficult. Most private sector downsizing has come not only through shrinking the organizational structure but also through transforming product lines and redesigning the products themselves. Public sector reform involves a very different set of questions that go far beyond efficiency, including equity, responsiveness, and democratic accountability, for which private reforms offer little guidance.

There is one clear lesson from the private sector's experience: The strategies employed by both Democrats (as seen in Round II of the NPR) and Republicans (in the Contract with America and other restructuring plans) run completely against the lessons taught by America's most successful companies. Careful planning and strategic thinking has to precede, not follow, downsizing. Companies that failed to take this step have failed to adapt to the fast-changing environment.

Lessons from A broad

Many countries abroad are a decade or more ahead of the United States in reforming their public sector.9 The United Kingdom, Australia, and New Zealand have been especially active. The British reform, for example, has involved selling off state-owned enterprises, decentralizing authority to local governments, cutting away red tape, and increasing customer service. The central goal is to provide freedom to manage for those responsible for results. Australia has followed much the same course, with considerable attention to coupling performance-based management to civil service reform. New Zealand has pressed the reform movement farther than any other developed nation, with extensive privatization, competition by government officials for their jobs, and other strategies to shrink the public sector. The NPR has followed the lead of these Westminster countries. The lessons are fuzzy at best, however, for several reasons.

- These nations all have parliamentary forms of government, which create very different tensions and pressures than the American separation of powers. Many of the toughest unanswered questions for the NPR—How many of the Clinton administration's plans could be accomplished without an active partnership with Congress? How could such a partnership be built?—were not issues in these other nations.
- Despite the considerable experience these nations have amassed, the results are not yet clear. The devolution movement in Britain, for example, has been accompanied by more centralization in other areas. There is little convincing evidence that greater devolution of power has produced better outcomes.10 Meanwhile, the sweeping reforms have created huge political battles.11 In New Zealand, despite the huge changes afoot, there has been little evaluation of the results. The first thorough study will be completed during the summer of 1995. Meanwhile, the reforms have raised as many questions as answers.12
- Even where similar enterprises in different countries might suggest some lessons, plucking reforms out of context can prove dangerous. For example, both the NPR and some Republican reformers have pointed to New Zealand's privatization of its air-traffic control system offers a model for the United States to follow. It is one thing, however, to privatize a system employing just 700 em-

ployees in a relatively remote country with a small population. It is quite another to consider privatizing the American system, with its 30,000 employees and many of the world's busiest airports. Equipment in the American systems badly needs to be upgraded, but the risks of tinkering with the world's finest air-traffic control system suggests great caution in drawing the wrong lessons from a non-comparable case.

CONCLUSION

The federal government badly needs to improve its performance. That is the overwhelming message from public opinion polls, elections, and street comer discussions. The great danger, however, is that the incredible pressure to shrink government's size and enhance its outcomes will drive officials to seek quick wins and symbolic results by following the wrong lessons from cases that poorly match.

The NPR has proven that government, in fact, can be reformed. It has also proven just how hard the work is, and how critical it is to focus on the right problems. James Champy presents a chilling warning from private sector restructuring that has gone badly. The revolution he and coauthor Michael Hammer helped launch has only gone half-way. "I have also learned that half a revolution is not better than none. It may, in fact, be worse."13 As the Subcommittee launches its careful study of how best to reform American government, that is the most important lesson of all: How can we focus on the right questions? How can we ensure that we will not sacrifice long-term results for short-term wins? And where can we go to find the answers?

We cannot afford to duck these questions. Neither can we afford to tackle them with answers that go only half way. If the public is cynical now, nothing could be worse than raising their expectations and failing to deliver. The real lesson that comes through laser-sharp from the review of all reforms—federal, state, and local; public and private; and international—is that success comes from making reform a process, not an event.14 It is not something that is done and then completed. Success comes from a lasting commitment to fundamental change and long-term improvement.

Mr. HORN. Thank you very much, Mr. Kettl.

Mr. Jasper.

Mr. JASPER. Mr. Chairman, I appreciate the opportunity to offer my comments on the NPR.

Despite the concerns which I have expressed in my prepared statement, I believe the general direction of most of the NPR recommendations was sound and welcome. I also list several specific NPR accomplishments which I think are impressive.

However, for every employee who has been touched personally and positively by reinvention, there may be 10 who have not been touched at all or have experienced negative impacts. Some of that results from the deficiencies in the process itself. Of some 250 individuals on the task force, only a few were specifically sought out. The great majority were assigned by their agencies, and not necessarily because they had particular knowledge and experience about government reform.

Those who worked on the agency teams chose their agency assignments, though generally not the agency where they were employed. This had the advantage of assuring fresh perspective but it inevitably led to naive and uninformed proposals.

I'll comment briefly on some of the problems which I think stem from those deficiencies and what this committee, the Congress, and the administration can do or are doing about them.

First and foremost is that it's disappointing that the NPR failed to perform any analysis before reaching many of its conclusions. Unfortunately, short-term political considerations engendered the proposal to cut personnel by 252,000 without any rationale for that number or of the consequences of this "ready, fire, aim" approach.

It made reinvention appear to many employees to be a code word for reduction in force.

Since the Congress has "upped the ante" to a 272,900 cut by law, it will be clearly very difficult to correct this problem. Nonetheless, I'll be bold enough to make a proposal at the end of my statement.

The NPR report is certainly in the mainstream of management thinking but it's clearly off base in several respects, such as relying too much on irrelevant State and local experience. The NPR curiously recommended—and you heard John Koskinen talk about it—that the 7-to-1 ratio of employees to managers should be changed to the alleged private-sector ratio of 15 employees to each manager. But Labor Department statistics report a ratio of only 6.3 to 1, and one of the case studies that the NPR used was the Ritz Carlton Hotel. I wonder what supervision of chambermaids has in common with supervision of toxic waste cleanups.

The report, as was also mentioned earlier by others, overlooked the necessity for gaining congressional cooperation, which I'm pleased to see the NPR II apparently has learned about.

I'd like to say a word about procurement. Much has been said about procurement reform, but the fact is that the procurement rules and regulations under the old statutes often went far beyond what the laws required. Procurement officers are typically concerned with avoiding not only abuse but also criticism. They have become virtual czars of the procurement process and, unless their culture can be changed, the procurement statute that was passed recently will have very little effect, in my judgment.

The NPR also, partly as a result of the staffing deficiencies that I've mentioned, made some mistakes, I believe. Probably the most significant one is the proposal to split off air traffic control from the rest of FAA. I don't think that's going very far in this Congress so I probably needn't say any more about it.

Another mistake I think is that it proposed to broaden the role of IGs. You raised a question earlier about whether we need to pay more attention to what IGs do. I think the right answer may lie more in the direction of narrowing their span of responsibility rather than broadening it.

A number of serious problems were overlooked completely by the NPR. Not by accident; on purpose. For example, the number of political appointees, about which there was some colloquy this morning. The number of political appointees has more than doubled since 1960 while total employment has declined. If we want to flatten hierarchies, I think political levels is the place to start. And it was a point which they consciously decided not to tackle.

I'm also surprised and disappointed that you can't find a discussion of the management role of OMB any place in the NPR.

As a result of the 1994 OMB reorganization, and the creation of the NPR and the Vice President's activities, which I think are to be commended, we have governmentwide management responsibility scattered among: the Vice President, the NPR, an interagency committee and nine different parts of OMB. Again, if we're looking for something to reinvent we probably ought to look at the scattering of general management responsibilities.

NPR II seems to be doing better in a number of respects, including keeping OMB and the agencies involved and starting with

agency missions, which several people have said is where we should have started. Even 2 years late it's OK to do that. Once we establish the missions, we need to free up managers to figure out how best to accomplish them.

My solution to the problem is to do away with FTE ceilings, legislate restrictions in funds equivalent to the FTE ceiling reduction savings, and then allow managers to do what we call manage to budget. That gives them a pot of money and lets them use it for high-grade employees or low-grade employees, contracting out or doing work in house. That kind of flexibility is the way to run the government better.

Finally, I would like to point out, as I described at the end of my statement, where staff reductions occur if you did a business process reengineering the right way. I outlined some 10 steps at the end of my statement, and cutting personnel is the ninth step, not the first.

Thank you Mr. Chairman.

[The prepared statement of Mr. Jasper follows:]

PREPARED STATEMENT OF HERBERT N. JASPER, MCMANIS ASSOCIATES

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to offer my comments on the design and implementation of the National Performance Review (NPR) Phase I recommendations and Phase II initiatives. My views are shaped by my experiences as: a career civil servant in the federal executive branch, an employee of the U.S. Congress and two of its staff agencies, a trade association executive, a management consultant, and a Fellow of the National Academy of Public Administration (NAPA). Much of my career has focused on government-wide organization and management issues. The views that follow are my own, and do not necessarily reflect those of NAPA or McManis Associates.

NPR'S MISSION AND ACCOMPLISHMENTS

MISSION. In March 1993, President Clinton gave Vice President Gore a broad charter to improve federal management. The Vice President captured the essence of his mission in the title of the NPR's September 1993 report, "Creating a Government That Works Better & Costs Less." Both the President and Vice President deserve great credit for developing the bold and far-reaching agenda reflected in the NPR report. It is quite encouraging (and also unusual) to have a commitment to management improvement from the Chief Executive. That commitment is underscored by his giving the leadership responsibility to the Vice President, and by his prompt implementation of several recommendations through a number of executive orders and memoranda.

ACCOMPLISHMENTS. The general direction of most of the NPR recommendations was sound and welcome. The Administration has engendered a refreshing spirit of change, experimentation, and innovation. Reinvention laboratories are burgeoning, and agencies are reevaluating and redefining their missions, reengineering their core business processes, streamlining their structures, and striving to improve their customer service. Consolidating or terminating programs, combining or abolishing agencies, and other more fundamental change will, however, have to await the outcome of NPR II.

Since others have addressed some of the specific accomplishments of the NPR, I shall simply list a few of them to show that, despite the misgivings that I state later, I recognize and applaud these management improvements:

- delegation of GSA and OPM authorities to operating agencies
- establishment of customer service standards
- simplification of applications for federal benefits
- closing of field offices
- flattening of headquarters hierarchies
- establishment of President's Management Council
- reduction of employment (so far, principally in the Defense Department)
- simplification of approval processes for government travel and hiring
- increased use of electronic payment systems
- substitution of electronic for paper records and processes

- eliciting ideas for improvements from employees
- establishment of performance agreements between the President and agency heads
- establishment of performance agreements between agency heads and subordinate officers
- one-stop-shopping
- increased use of government purchase cards
- rescinding, consolidating or simplifying regulations
- development of federal agency-private business partnerships.

These improvements are impressive; many managers and employees have been stimulated toward reexamination and innovation. But for every employee who has been touched personally and positively by "reinvention, there may be ten who have not been touched at all, or who have experienced negative impacts. Accordingly, I think I can be most helpful to the committee if I concentrate on what the various "actors" in both branches can do to capitalize on the NPR's strengths, while seeking to mitigate the risks that it poses to good government. I will begin with some observations on the NPR process that, I believe, had built-in weaknesses.

THE NPR PROCESS

Several aspects of the NPR process directly affected the scope and quality of recommendations made by the task force. Understanding these factors better may provide a context within which to view the NPR's initial effort and, one hopes, determine the most constructive next steps that will make up for some of the NPR's deficiencies.

The NPR task force was composed primarily of some-250 individuals borrowed from the major Federal agencies—without benefit of any statutory foundation or, of course, of any earmarked appropriations. They were augmented by representatives from the Texas State Comptroller's Office familiar with the Texas Performance Review, upon which the NPR structure was largely based, and outside consultants, such as David Osborne, co- author of Reinventing Government. Several members of the task force were specifically sought out by NPR leadership. However, the great majority of NPR staff were assigned to the task force by their agencies.

The Vice President asked each major federal agency to provide three individuals to work on the task force. Without questioning the talents or abilities of the individuals assigned, it appears that many Federal agencies responded to this request by assigning people who, in simple terms, would not necessarily be missed. Thus, the bulk of the NPR staff were not selected in a way mindful of the task. e.g. individuals with particular knowledge and experience about government reform.

Moreover, I understand that the team members who worked on the NPR's 22 Agency Teams (more than half the total staff) were self selected, based on each individual's particular interest at the time. The general rule was that individuals could not work on a team representing the agency where they were employed. While this assured fresh perspectives, it inevitably led to naive and uninformed proposals. This problem was exacerbated by the distrust evidenced in a number of cases toward staff of the agencies being studied—and by a policy of keeping agency staff "in the dark."

Perhaps the greatest flaw in the NPR process, therefore involved the recommendations developed by the agency teams. At the NPR's inception, I understand that these teams were given broad authority to develop any worthwhile recommendation, regardless how bold or far-fetched. About halfway through the six-month review, however, the NPR agency teams were told that all agency specific recommendations were required to have the approval of the agency heads themselves. This evidently caused a major watering-down of the boldest proposals.

The systems teams were more often staffed with experts in the subject matter under review. Not surprisingly, then, the quality of their recommendations was generally higher than that of the agency teams.

As discussed more fully later, the proposed 252,000 personnel reduction did not arise from thoughtful analysis, but was injected for political reasons at a late date. Unfortunately, this has led to "one-upmanship" in government downsizing with the Congress and the Executive each trying to appear tougher than the other. (It is reminiscent of the competition for tax-cutting credit in 1981, which produced our persistent deficits.) Clearly this competition is not strengthening the intellectual debate on government reform efforts. Instead, we appear to find ourselves in a race for "quick fixes" and apparent reform. I hope that we do not turn to "shuffling boxes" and organizational realignments during NPR II in the name of reform, but without the prerequisite analysis.

DISAPPOINTMENTS, IMPLEMENTATION CHALLENGES, MISTAKES AND OMISSIONS

Because of the very nature of the NPR process, there were high risks of failure, or worse—of counterproductive results. As a long-time public management practitioner, and as a management consultant engaged in helping federal agencies, I see both great promise and, alas, some danger in the work of the NPR to date. From time to time, and at the end of my statement, I shall address what corrective steps this committee, the Congress, and the Administration are taking or could take.

Disappointments. No effort to reinvent the federal government in six months could have been conducted completely without fault. However, several aspects of the NPR's work are a disappointment.

Lack of Analysis. It is quite disappointing that a reinvention process designed to encourage the use of analytical techniques, such as holding managers accountable for measurable results, should have failed to perform analysis before reaching conclusions. Agencies are striving to meet ever-increasing demands, but with ever-declining resources. So a report that should have been helpful to the agencies, unfortunately became one that could exacerbate their problems. That was because short-term political considerations intervened—notably, the proposal to cut personnel by 252,000 without any cogent analysis of the rationale for that number, or of the consequences of this "ready, aim, fire approach."

This top-down, arbitrary figure overwhelmed such meritorious ideas as abandoning full time equivalent (FTE) ceilings and employee empowerment. It made "reinvention" appear to many employees to be a code word for "reduction in force." And the subsequent decisions to mitigate the effects of downsizing on employees led to the use of "early-out" and "buy-out" techniques. This, too, compromised the prospects for achieving a government that "works better." A large proportion of those accepting these opportunities to bail out are among the government's best and brightest—persons who have good prospects for employment elsewhere. No thought has apparently been given to who will replace these people, or even if they will be replaced as agencies struggle to comply with reduced FTE ceilings.

Since the Congress has not only adopted the 12% cut in personnel proposed in the NPR, but has "upped the ante" to a 272,900 cut by law, it will clearly be very difficult to correct this problem. Nonetheless, I will be bold enough to make a proposal at the end of my statement.

"Hollow Government." Hollow government refers to statutory promises that are not backed up with resources, including people and money. The hollow government phenomenon may contribute significantly to the dismal evaluation of the government by the public. The arbitrary 12% personnel reduction will likely make the government even more hollow singe NPR I declined, for the most part, to address the program terminations or reductions that could offset this danger. Of course, NPR II is belatedly addressing these issues.

Major Inconsistency. There is a heavy dose of top-down, or "command" philosophy in some of the recommendations, which is antithetical to the quality management and reengineering efforts also advocated. Examples are the 12% personnel reductions, the 50% reduction specifications for mid-level management and for regulations, etc. Quality management teaches us that empowered employees and managers will often exceed the expectations of their leaders if they are allowed to work through self-managed teams or similar methods, but without goals, targets or mandates. I address this issue later, as well.

Government Bashing. Notwithstanding the obligatory statements about the talents of bureaucrats who are being repressed by the "system," the report lends support to the idea that the government is broken, inefficient, overstaffed and ineffective. The public does not distinguish between "tarring" bureaucrats and tarring the bureaucracy. Thus, the NPR adds fuel to the fires of government bashing and bureaucrat bashing which have been prominent during the past 25 years.

The President can not lead "troops" who are demoralized or disillusioned. Perhaps the President and the Vice President eventually perceived this problem. In various places, both of them have sought to commend federal employees for their commitment and wisdom since the NPR report was issued. For example, in his New Year's message, the Vice President told federal employees that he and the President were "building on your ideas" and that "the most rewarding part of reinvention has been seeing first hand the talent and dedication you bring to your work."

CONCEPTUAL WEAKNESSES

While the NPR report is in the mainstream of management thinking regarding such issues as defining missions, reengineering work processes, measuring results, empowering workers, cutting red tape, and serving customers, it is "off base" in several respects.

Analogies With State and Local Government. Some analogies between state/local governments and the federal government are seriously overdrawn. For example, the supervisory and accountability challenges in contracting out for garbage collection in Sunnyvale, CA have little or nothing to do with those involved in contracting out for building guided missiles or communications satellites.

Analogies With the Private Sector. Emulating the successful experiences of the private sector is praiseworthy. But following the unwise path pursued by many companies of "cut first, analyze later," is fraught with danger to the public interest.

The NPR's recommended 12% staff reduction is based partly on the assumption that the 7 to 1 ratio of employees to managers should be changed to the alleged, private sector ratio of 15 employees to each manager. But the 15 to 1 ratio is not supported by official Department of Labor statistics that report a total workforce non-supervisor-to-supervisor ratio of 6.3 to 1. (Reference: DOL Employment and Earnings, January 1993, Table 22). When asked about this, NPR personnel said that 15 to 1 was the ratio in a few companies which they considered, such as the Ritz-Carlton Hotels. One might ask what connection there is to the supervisory ratio for chambermaids and that for persons overseeing the clean up of toxic wastes.

IMPLEMENTATION CHALLENGES

There are invariably difficult issues that arise in the implementation of the most well-conceived recommendations. And here, the very process by which the NPR report was produced compromised the prospects for successful follow-through.

Role of Congress. The NPR report virtually overlooked the necessity for gaining congressional cooperation under a Constitution of shared powers and in an era of a resurgent Congress. The NPR clearly overestimated the ability of the executive branch, alone, to implement a large proportion of the recommendations. Further, it greatly underestimated the ease with which the culture—not just of the executive branch, but of Congress as well—can be changed. Plans for NPR II, perhaps recognizing the outcome of the 1994 elections, seem to reflect the NPR's realization that Congress must be a full partner in reinvention.

Clarifying the Objectives of Federal Programs. Clarifying program objectives is an NPR goal that all can support. However, the proposal fails to recognize that many complex and obscure statutes arise from the trade-offs and compromises that arise in the legislative process, often with intentional ambiguity as to the objectives and beneficiaries. Many court cases have identified the diametrically opposed interpretations given by Members of Congress of the same provision while it was being debated on the floor of the chamber. The Administration will have to work very closely with Congress if it is to achieve this goal.

Weakening the Central Staff Agencies. The capacity of the central staff agencies, and of the executive branch as a whole, to implement the NPR's ambitious agenda is limited; in several respects, the recommendations would probably weaken the central staff agencies and, hence, the ability of the President to manage effectively. This subcommittee might want to address the issues of the resources and capacities of the General Services Administration and of the Office of Management and Budget. The Civil Service subcommittee might focus on the Office of Personnel Management's capacity.

Decentralization and Internal Deregulation. Allowing federal managers more flexibility and discretion in administering their programs by means of internal deregulation, including in personnel, procurement, property management, etc. is long overdue. But the report overlooks the fact that managers are often ill prepared and ill equipped to fulfill the more demanding tasks of supervising delegated functions. If these recommendations are to be successfully implemented, they might call for more middle managers rather than fewer. There is also a substantial need for supervisory training if these actions are to be taken without jeopardizing the public interest. Unfortunately, to the contrary, funds for training are being sharply reduced to meet new budget restrictions.

In eliminating or modifying regulations that are unnecessary, overly-prescriptive or confusing, the delegating agency (which must remain accountable) needs to provide background information and guidance to assure proper, consistent and efficient execution of the relevant laws. Requiring agencies to develop their own expertise in the newly-deregulated environment may call for costly duplication in some cases. It is not at all clear that the Office of Personnel Management and the General Services Administration, for example, are equipped to guide and monitor the delegated functions adequately.

Contracting Out and Privatization. The report recommends significantly greater reliance on the private sector to perform functions of such agencies as GSA, De-

fense, NOAA, Labor and HUD. Unfortunately, it does not distinguish clearly between contracting out and privatization.

There already is a broad spectrum of programs that engage the private sector in the pursuit of federal objectives, including through contracting, loans and loan guarantees (both direct and through private institutions), vouchers, food stamps and insurance, both explicit and implied. (For example, the government made good on savings and loan deposits at failed institutions without regard to the expressly-stated limit on account insurance.)

Not addressed by the NPR report is how to remedy the existing deficiencies in oversight and management capacity, let alone how to prevent their exacerbation as the federal workforce is reduced by 252,000 persons (later increased to 272,900 by Congress). Contracting out does not eliminate the need for public management; it only changes its character. As long as public funds or authority are involved, public accountability and control are essential.

An additional problem not addressed in the NPR report is the possibly-excessive use of contractors by certain agencies. Functions that should probably be performed in-house have been contracted out in such agencies as NASA and the Department of Energy. Staff capacity to monitor and evaluate contractor performance has often been inadequate. Congressional committees have identified such problems. For example, it was found that contractors had even written congressional testimony for the Secretary of Energy on the issue of contracting out! The concept that there are inherently governmental functions that must not be privatized or contracted out can not be found in the report.

In the case of privatization—where the government actually relinquishes its authority and responsibility, such as to a government sponsored enterprise (GSE)—there may be a requirement for continued oversight. This will be so if the public may look to the government for redress upon failure of the enterprise, as is often the case with GSEs. The existing capacity of federal agencies to protect the government's (i.e., the public's) interest in the hundreds of billions of dollars at risk is woefully inadequate. I believe this is another problem that warrants the attention of Congress.

Procurement deregulation. The NPR focuses attention correctly on the cumbersome and costly procurement rules and regulations, which often go beyond what the laws require. But it must be recognized that the laws and regulations have grown so complex in reaction to procurement fraud and abuse. Simply streamlining the rules, without instilling a culture of honesty, and without an audit capability to identify the inevitable abuses, would be a formula for calling the detailed prescriptions back into effect.

Moreover, procurement officers often have little regard for economy or efficiency. They are typically concerned with avoiding not only abuse, but also criticism. They have become virtual "czars" of the procurement process, substituting their judgment for that of program officials as high as the agency head. Thus, procurement reform will not result from the new procurement legislation unless procurement officers are retrained, and reoriented—in short, unless they adopt a new culture.

Empowerment. Empowerment in quality management circles means capturing employees' creativity by engaging them in the study of work processes; it does not necessarily mean, as used in the report, delegating decision-making power. Holding public employees accountable for "results" may be a frightening and unrealistic standard (and, therefore, a disincentive), considering the constraints within which they must operate. Further the emphasis should be on managerial accountability for results, while recognizing that managers should hold employees accountable for their performance.

Customer Service. The NPR report's chapter on "Putting Customers First" is a very encouraging charter for improving the responsiveness of the bureaucracy. Customer service is a hallmark of Total Quality Management (TQM), as practiced both by public agencies and private companies. But telephone information calls to Social Security field offices now may receive a message warning callers that the waiting time is 10 minutes or more! One wonders how a 12% personnel cut—not related to process reengineering—will be compatible with giving customers the improved service standards promised by the NPR. Will this meet the President's standard in Executive Order 12862 "to provide service to the public that matches or exceeds the best service available in the private sector"?

In the public sector, especially, the concept of multiple customers needs to be recognized. For example, no agency would be wise to overlook the fact that Congress, as well as the President, is a "customer" in TQM terms. Arguably, many of the statutory constraints imposed on federal managers have their origins in the failure of agencies to recognize that Congress is a customer under our system of shared pow-

ers. In recognition of this need, as a private consultant. I have developed a course on "Congress as a Customer."

Regulation of the Private Sector. There is widespread agreement on the concept that reducing regulatory burdens is desirable but the reality is that the federal government has statutory responsibilities for regulation whose impact on the public can not always easily be lightened. Congress and its committees often have very strong interest in aggressive enforcement by regulation of statutory mandates. Implementation of this recommendation, accordingly, will require careful and sensitive consultation with Congress.

MISTAKES

There are a number of proposals that I believe are mistakes. I'll illustrate this with two examples.

Air Traffic Control Corporation. The report recommends restructuring the Air Traffic Control (ATC) system into a government corporation, governed by a board of directors representing the system's customers. Splitting FAA into two parts would reverse the decision to vest all air safety functions in a single agency as the main objective of the Federal Aviation Act of 1958. It would be a very complex undertaking and would require extensive coordinating arrangements between the two entities in order to assure that there would be no risks to safety through delayed or inconclusive actions. Not well publicized is that the task force commissioned to work out the dividing lines between the new corporation and the remaining FAA estimated that 200 additional positions would be needed to provide each with the requisite expertise!

The parts of FAA not included in the corporation would still be subject to all the impediments that argue for corporate status for ATC. Further, the public interest in an ATC system that is both efficient and economical would not be well served by vesting governance powers in a board of users.

A far better solution to FAA's problems, would be to convert the whole of FAA to a government corporation, headed by a single executive. There might be an advisory board, representing not only ATC users but the public as well. The corporation should not be in the Department of Transportation (where it might be subject to micromanagement by departmental staff) but should be subject to the policy guidance of the Secretary of Transportation.

Broadening the Role of the Inspectors General. The existing statutory role and status of Inspectors General (IG) makes them semiautonomous. They report directly to the Congress as well as to the executive branch. Many informed observers believe that the law establishing the IGs unwisely transferred agency audit responsibilities and staff to the IGs, thus assigning an essential tool for management to an official not fully responsive to the agency head. The IG statute already makes them responsible for prevention of wrongful acts, as well as for their detection. But IGs have found that they get their recognition and rewards for detection, so prevention has not been a priority for them. I think it is worth serious consideration whether the remedy lies in narrowing their functions rather than in broadening them. I understand that the committee will be reviewing these issues in a subsequent hearing.

IMPORTANT ISSUES OMITTED

The NPR report failed to address several of the most serious management problems confronting a modern-day President.

Number of Political Appointees. The number of political appointees has more than doubled since 1960—while total employment has declined markedly. Most of the superfluous layers in executive departments appear to be populated by political appointees. There is a mistaken impression that this group of appointees is necessary to assure that the Administration can control the bureaucracy. Nothing could be further from the truth. In fact, bureaucrats are eager to discern new political directions from an incoming Administration. They often find, however, that political appointees have their own agenda—not necessarily that of the President. The Volcker Commission concluded that the large number of political appointees actually impaired the Administration's ability to take charge. If one wants to flatten hierarchies, this is the place to start. Perhaps this committee could address the matter at a later date.

The Appointment Process. Presidents have experienced increasing difficulty in filling political positions. There is also a clear need to orient and train political appointees. The consequences for effective management of short service by political appointees, together with extended vacancies in such positions, were not discussed by the NPR. Reducing the numbers would help, but there ought to be a concerted effort to simplify the recruitment, selection and confirmation processes.

Departmental Management. While the designation of Chief Operating Officers (COOs) in each department, as proposed by the NPR, is a good idea, the report did not address the dispersal of management responsibilities among a number of assistant secretaries in most departments. As members of the President's Management Council, these COOs are contributing significantly to improved federal management. Since most of them occupy the second-ranking position in their departments, however, they will not be able to devote sufficient time to coordinate the performance of the scattered management functions. This problem will probably be addressed in a subsequent hearing, but I urge that consideration be given to the establishment of an Under Secretary for Management position in each department that does not already have one.

Government-Wide Management. There was an apparent effort by the NPR to weaken the role of the Office of Management and Budget (OMB) in general. The Vice President's staff and NPR staff seemed to view OMB entirely through a budgeting and control perspective. It was surprising that a report on "Creating a Government that Works Better & Costs Less" had no discussion at all of the management role of OMB.

Whereas Congress only recently established the post of Deputy OMB Director for Management (DDM), the role of this official may have been seriously weakened by the internal reorganization in OMB that dispersed virtually all of the general management staff and functions among the budget examining divisions. The rationale for delegating agency-specific management functions to the newly-named Resource Management Offices may be sound, but it does not explain or justify the dispersal of general management staff to agency-oriented units of OMB. Where will there be expertise, for example, on government structure, corporate enterprises, government-wide management initiatives like the Government Performance and Results Act, or separation of powers issues—all of which once resided in the predecessor organization to that now headed by the DDM?

Of particular concern is that the Executive Orders and presidential memoranda issued to carry out NPR recommendations raise doubts about the expertise or sophistication of those drafting and reviewing these documents. For example, the authors do not apparently know the difference between independent regulatory agencies, and independent agencies. These terms are used inconsistently (as well as incorrectly), both within the same document and in the several documents. There are a number of other defects in these documents and it appears that OMB was either not involved in their drafting and review, or no longer has the requisite expertise or "clout" to protect the President—and the presidency—from carelessly crafted executive directives.

Having the DDM Chair the President's Management Council (PMC) could make that officer a "major player" in management matters. But there is no substitute for his having a strong general management staff reporting directly to him. Unfortunately, I understand that the PMC has elected not to have its own staff which could, perhaps, substitute for the general management staff which the DDM no longer has in OMB.

As a result of these developments, we have government-wide management responsibilities scattered among the Vice Presidents' Office, the NPR, an interagency committee and at least nine parts of OMB! If the NPR were still looking for systems to reinvent or reengineer, probably the dispersal of general management responsibilities ought to head the list.

NPR II

NPR II seems to be better conceived than was NPR I. For example, the appropriate roles of OMB and its DDM appear to have been reestablished. OMB is playing a major role in the NPR II Steering Committee and Advisory Teams. A genuine emphasis on management issues, connected with implementation of the Government Performance and Results Act, has been built into the budget examining process by Director Rivlin. The agencies are also full partners in the NPR II exercise. One assumes that the distrust and secrecy that compromised some of the NPR I activities is well behind us.

SOME SUGGESTIONS ON "HOW TO DO IT RIGHT"

Substantively, NPR II is now addressing some of the issues which should have preceded the prescriptions for downsizing. Challenging, evaluating and deciding upon agency missions is the starting point. Modification, termination, combination or devolution will be addressed. After that is the time to reengineer (or to engineer) the processes which are needed to carry out the redefined missions. That would, of course, be the right time to decide upon downsizing.

To begin with, agencies and managers need to be liberated and empowered in ways not discussed in the NPR report. They should be given freedom to manage their resources in the most effective way in fulfilling their missions. One approach toward this end is to allow managers to "manage to budget." Under this concept, FTE ceilings would be abolished. The same savings to be realized by the 272,900 reduction in personnel could be accomplished through the budget and appropriations process. For example, that represents about a 13% reduction in personnel. And personnel costs represent about 8% of the budget. So Congress could require a 1.1% cut in overall expenditures (or whatever percentage would yield the proposed savings). This cut would be allocated among agencies by OMB.

Managers, in turn, would have flexibility and authority to use the funds in the most efficient and effective manner. This will not only enable, but encourage, managers to contract out where it will save money, while retaining appropriate oversight capacity.

In a full-blown manage to budget scenario, managers would also be given substantially greater personnel authority. Merely abolishing the Standard Form 171 job application and the Federal Personnel Manual will not "do the trick." They need to have greater authority over not only appointments, but position classification. As suggested earlier, program managers should no longer be subordinated to procurement officers.

Pressures to cut personnel, flatten hierarchies, and close offices need to be resisted until sufficient analysis has been conducted. There is no real mystery to reinvention or reengineering. They are tried and true processes. But they take time if they are done right. The first step is to define the mission. This step is being taken through the NPR II process. After that, the agencies should be required to take the additional steps involved in a full-scale reengineering. The several steps are:

- Establish vision and set goals
- Analyze and evaluate core processes and support systems
- Benchmark against superior methods
- Reengineer process
- Establish measurement systems
- Pilot test reenginered processes
- Revise and implement
- CUT PERSONNEL AND REDEPLOY RESOURCES AMONG PROGRAMS AND PROCESSES TO BE RETAINED (N.B. This is the first point at which staff cuts can be made rationally—and without jeopardizing program effectiveness.)
- Evaluate periodically and revise as needed.

If NPR I had "practiced what it preached," we would be further along in our quest for successful reinvention and reengineering. Let us hope that NPR II, OMB and the agencies will profit from experience.

Mr. HORN. You've all contributed very helpful comments. You have fulfilled my instinct, although unfortunately I didn't insist on it in this hearing. This is an excellent hearing, but I think that in any congressional hearing the critics ought to go first so those implementing policy and their staffs can hear some of the comments and we can get a little closure when we've got those people before us.

So I'm sorry you came at the end. That is my fault. And next time it will be different because we could take a few hours questioning each of you.

Let me just start with Herb. Since you were the last to get your turn at bat, we might as well start with you. You mentioned the degree of congressional cooperation. And I am just curious, how do you feel such cooperation should be manifested? What do you see is the right way to go about it if you are trying to get a management review of the Federal Government and you are in the executive branch?

Mr. JASPER. Let me start with a programmatic example because it may resonate. You may have read the New Yorker piece on Hillary Clinton and health reform. In it, she admitted that serious

mistakes were made by the 500-person task force in that they did not involve senior Members of the Congress early on.

The way our government is structured, it's very easy to stop something. The trick is to make something happen. And it can only happen if the two branches work together. So I don't care what the distribution of party power is, you've got to have the Congress and executive branch working together if you are going to make anything significant happen.

I think NPR I was dreadfully off base even in the rhetoric where they asserted that two-thirds of the recommendations could be accomplished by executive action. I read the proposals in the main text of the NPR report. They didn't call them recommendations; they called them actions. But of the 117 actions, I counted 60 which could not be done without the Congress. And the same is true of course of the 384 in the attachment to the report.

So you have to start early. You have to find out what Members of Congress think are the problems. Just as somebody said earlier, perhaps you, when you are a management consultant, you go out and ask the people what they think. Congress is one of the customers, by the way, in my parlance. You go out and ask them what they think the problems are, what they think the solutions are, and work them out together.

Mr. HORN. Let me list a few types of obvious executive-legislative cooperation. One, you can involve the Chair and ranking member of the relevant committees in authorization, subcommittee on appropriations and oversight, and either have them or their senior staff as part of a task force. Obviously it's difficult for us to get downtown, especially during these first 100 days.

I think we're talking about a mixture of Members and senior staff as one way to participate in some of the policy formulating task forces. Other ways you suggest is to come up, touch base with all those people, get their ideas in their office with a leisurely talk and see what's making them tick on this because obviously they are going to have an effect on authorization, budget, and oversight.

Another way certainly would be to involve them in the period just prior to the formulation of suggested recommendations to go before the full group, maybe spend an afternoon. If we could ever get the six in the room of oversight authorization and appropriations, that might be a useful aspect. But it is more useful, as President Truman found, to get them involved from the beginning.

Mr. JASPER. Exactly. The earlier the better, and the less formal the better. I would not formalize the process.

Mr. HORN. Not necessarily in a hearing and all that, but sit down and touch base with them. Am I missing something? What else would you do besides the obvious?

Mr. FOSLER. Mr. Chairman, I might mention the academy not too long ago did a study of the relationship between the Congress and the executive branch which was put in the report called "Beyond Distrust: Building Bridges Between the Congress and the Executive." It addressed many of the issues that you are raising and suggested various approaches and some specific institutional techniques that might be used. And I think it might be worthwhile reviewing some of those.

I think the key as well is the focus on outcomes or results, and there the Government Performance and Results Act probably provides an important framework for beginning to determine where there is some kind of agreement between the executive and the Congress.

Mr. HORN. Let me ask Dwight. I know you have to catch a plane and I'm conscious of your time. Do you have a comment on this discussion?

Mr. INK. One quick comment. There have been some very successful instances in which there has been this kind of cooperation and the committee staff might be interested in looking at some of those earlier experiences.

Mr. HORN. We would be delighted to have any suggestions you have. Dwight, before you leave, one of the things that a number of you have talked about is, how do you get the leadership responsibility in any of these departments to carry over between administrations?

Obviously, part of it is the new President who might be of the same party or the opposite party desirous of carrying on such an effort, but let's assume they aren't so desirous. Who would you put the finger on to provide that continuity in a Cabinet department or a large independent agency?

Mr. INK. It's very difficult under our current organization. One, I think this is aggravated by having too many political appointees in a department. And the overseas experience that has been successful thus far has been successful in part because that layering of political appointees did not exist.

And second, there needs to be on the one hand the ability to respond to political leadership on a timely basis and on the other hand some kind of protection and insulation from political interference in personnel actions, and in procurement actions. That kind of protection did exist in the early space program. It existed in the Atomic Energy Commission. It has existed in several of our best-managed organizations over the years.

Finally, we now have a very fragmented system of leadership in departments. We need to reinvent some modern form of what we used to have as assistant secretaries for administration. I don't think that exact form fits today. An under secretary for management has been suggested. There does need to be a focal point which does not now exist in a department that provides continuity.

Mr. JASPER. Could I add a quick comment?

Mr. HORN. Sure.

Mr. JASPER. The under secretary for management idea is an answer to the scattering of management responsibilities among assistant secretaries. In some departments, as many as six now share duties that used to be performed by one. That is part of the proliferation of political appointees.

If you had an under secretary for management and you had prescriptions in the statute about the qualifications of that appointee, I imagine both the President and the Senate would ignore them. But it's probably a good idea to write them down anyhow because it might add a little bit to the understanding of what sort of job that is. Then, if you had fewer political appointees, you would be able to have more continuity. That's why we have this episodic

business with ever-new processes, such as ZZB or MBO. We don't have continuity because there is not the layer of nonpolitical appointees at the top levels that there used to be.

Mr. INK. Mr. Chairman, I wonder, would it be possible for me to respond in writing to questions? I'm going to miss my plane if I don't get excused.

Mr. HORN. It will. We will share the comments of your colleagues with you and we would love to have your reaction. We might even give them rebuttal rights. Have a good trip.

Mr. INK. I hate to leave, but I am going to miss my plane if I don't.

Mr. HORN. As was mentioned, the Hoover Commission recommendations, created an assistant secretary for administration or administrative assistant secretary and this position is sort of a hodgepodge. Some are Presidential appointees, some are secretarial appointees, and then, added in the 1960's were assistant secretaries for program evaluation and analysis. That was the trend.

I don't know if you are suggesting that those were initially functions that should have been under the assistant secretary for administration because you said in one department they are divided six ways. Is that the second way that it can happen?

Mr. JASPER. Generally speaking that's what happened. It happened in part because the assistant secretary for administration used to be a career position, not a political position. So all these new political positions were created. Eventually all but one or two departments politicized the assistant secretary for administration post as well. But nobody ever recentralized. We decided the only way you could do it is with a higher level job called under secretary for management.

Mr. HORN. As you recall, some agencies by sheer chance have had sort of a top civil servant that does carry over between administrations that Cabinet officers rely upon. In my day in Labor in 1959 and 1960 you had Millard Cass, Deputy UnderSecretary. He was there with administrations before Secretary Mitchell arrived, and he was there after him.

And I remember going in when I wanted to check an idea. He said, "Steve, I've got two drawers; one is a Democrat drawer, one is a Republican drawer. Which would you like me to dip into today?" And he took his role with good humor and he also got the job done. And you had an institutional memory there much like Doc Cooke provides in Defense for Secretaries of Defense.

The question is, do the new appointees use that institutional memory, and to what degree do some people serve too long in these areas and have their own fiefdom problems?

But I think basically you are putting your finger on the right problem, that it is terribly fragmented. On the other hand, can you get the best people in planning and evaluation if they are simply a subdirector or some sort of an assistant secretary that performs management functions?

Now, the undersecretary idea might solve that problem where you could put all those assistant secretaries together. I don't know if you have any other wisdom on this subject.

Mr. JASPER. I might just say after you name Doc Cooke, I daresay you will be hard put to think of another one. We just don't have people like that stay in the departments anymore.

Mr. HORN. Ms. Maloney.

Mrs. MALONEY. Thank you, Mr. Chairman. I believe it was Mr. Kettl mentioned or suggested that it would be better if we put more thought in where we cut instead of across the board in personnel.

As a former member of the city council of New York City, we were constantly confronting budget crises and oftentimes they just did across-the-board cuts because then, when you came up and proposed various cuts, you got into a fight between the agencies—in a political fight. It reminds me of the base closings. We could never agree on the base closings until we finally had a commission come out with a proposal that we voted up or down.

I would like to ask all of you if you have any ideas of how we could better confront, if you do have to make cuts, a better, thoughtful way of the doing it. As we are cutting, if you set up a commission to then study the cuts, you know it is just—what were your suggestions?

Mr. KETTL. A couple of points here. First an observation. There is no such thing as an across-the-board cut. What happens is the instant that 3 percent, 5 percent, 10 percent cut is announced, individual agencies begin coming in and saying, "But you can't do that to us because we have essential functions." You don't want to cut the police department. You don't want to cut the Department of Defense. People begin arguing for exemptions, and at that point the idea of making it fair and equal across the board begins to evaporate. So what seems like an easy way quickly turns into something that can be completely random.

It seems to me the only way to do it from the beginning is to start at the end: That is, to think about what you want to accomplish, to think about performance, to try to ask what is it that can be done to make the job of getting performance easier and cheaper and better and effective. Only by focusing on the end product, which I think the Government Performance and Results Act offers the potential to do, only by focusing at the end can you figure out how you design the beginning and that ought to drive what happens from there.

Mrs. MALONEY. Mr. Jasper, you mentioned that you didn't think we would secure cuts from procurement—rather, savings from the procurement reforms for various reasons. Would you elaborate when you read reports on the NPR, the one area where they cite they will save more taxpayer dollars is through the procurement reforms?

I would just like all of you to sort of comment on that. I was surprised at your comment that you don't believe we will save money through the procurement reforms.

Mr. JASPER. My point is that procurement officers have become in the phrase I used in my testimony "czars" of the procurement process. They have more power than the agency head. They can substitute their judgment for when you need to compete something, even when the agency head said "no—it's dumb to compete because the incumbent contractor has been doing a good job and deserves

to get the award." Why spend tens of millions of dollars and 18 months competing something when you know what the outcome ought to be?

Now, do I mean to suggest that if you proceeded in that fashion there would not occasionally be some mischief? Well, of course, but there is mischief conducted under the present procurement process. We're reading all the time about scandals in the defense procurement process, as tight as it is.

The problem is that the procurement officers are not sufficiently oriented toward achieving the objectives of the agency. They are oriented toward covering the bases, I guess, to be more discreet—making sure that nobody will criticize them for not having competed something.

Recently, in the private consulting firm I'm associated with, we were asked to compete on a $10,000 purchase order where it was obviously known who was going to get the award. Three firms were asked not because the agency wanted their proposals for consideration. But because they could justify it in the record that they competed it. That's the kind of idiocy that I would like to see stripped away.

Mrs. MALONEY. How do you suggest to change that?

Mr. JASPER. Well, you probably need a wholesale psychiatric evaluation of procurement officers in the context of the new procurement law. It really requires a major cultural change. Every chance I get—I've talked to John Koskinen about this earlier, and he agrees that it is problem—you need to re-educate, re-orient, you need to acculturate the procurement officers to a new idea. That is, their job is to help get the mission accomplished, not just to keep somebody from complaining that a procurement should have been competed when it wasn't.

Mrs. MALONEY. I would like to ask each of you if you—what should be the top two things we should try to accomplish through the National Performance Review this year if we could? What are your feelings—what top two things would really make government operate better, more efficiently and more responsively?

Mr. FOSLER. I think the key to the reform that we are talking about is whether we can define precisely what we are trying to accomplish, determine what measures we can use to assess progress and get that institutionalized so it's very clear what it is that agencies are supposed to be doing, what the Congress is going to hold them accountable for.

In that regard, I do think that the Government Performance and Results Act, which is on the books and in the process of being implemented, is quite key to this entire effort. I would put that as a very high priority. Making that GPRA legislation work. That's key.

The second is capacity. There is a real problem with lack of capacity to be able to carry out and sustain these reforms even if they are implemented. We don't have the people now with the skills that are required. Because of the FTE ceilings, there is an emphasis on getting positions down without attention to who is getting pushed out.

Are we bringing in the new people with the new skills that we need? If we don't get those new skills either by retraining the people that are there or bringing in people that have those new skills,

it is not likely that we are going to make the kind of headway in changing the systems and changing the culture, the attitude, the behavior that's critical to the implementation of NPR.

Mr. KETTL. I'm going to sound like a broken record. I had mentally jotted down my list of two, which are exactly the same. The first is the idea of performance and the great risk of trying to go to big symbolic changes. We are going to shrink the bureaucracy by "pick your favorite target." You are going to succeed but get performance down much lower.

If we are serious about trying to make government work better, we've got to figure out what that means. How to talk about it and how to engage everyone, Members of Congress, members of the administration, members of the media, citizens around the country in a discussion about what it is that we want government to do. Only when we begin focusing on the results are we likely to improve the way in which government works.

The second thing is, once we've done that, we clearly need to try to improve the government's capacity to do it. And by capacity I mean two different things. The first is getting the right people in the right jobs trained with the right skills. We have a problem, for example, in the procurement process where we often don't give nearly enough attention to the people that have to make the tough multi-million, multi-billion-dollar decisions and then wonder sometimes why the programs don't work well. They are not going to work well without the right people doing the right jobs.

Along with that, as we've heard all morning long, is the emphasis on the right kind of strategy in information systems. We can't audit information that we don't have. We can't administer fiscal controls where we don't have good financial bookkeeping. We simply have to be able to follow the results of whatever it is we do if we are going to focus on performance and management. So if there are two things that we need to do, it is making sure that first we figure out what's most important to concentrate on and how best to accomplish it, and second, making sure that we've got the tools to do the job.

Mr. FOSLER. We seem to have a consensus.

Mr. JASPER. Without trying to take anything away from the first points made by both Scott and Don, I'd like to express a cautionary note that I think I mentioned it in my prepared statement. That is, the idea of getting the Congress to legislate with greater specificity about the objectives of programs is, I think, probably going be illusory, as you two probably know better than I.

Legislation is the result of compromise and often that results in obfuscating the purposes so that each Member who votes for it figures that he or she got what he or she needed. So the result is the laws are frequently very obscure.

Given that possibility, I think that, however, the first step still is better definition of agency missions. That's the starting point: to set goals and objectives, then to identify processes and reengineer the processes, then to downsize and contract out. But, as we said in our earlier colloquy, part of that process of defining missions could take place in a joint congressional-executive conversation. That way, when the agency decides what the new mission statement is, and what the vision is, and what the goals are, there is

a little bit of buy-in on the part of the Congress, and so it can be more meaningful.

At the risk of seeming to over-simplify the problem, however, since you asked for two suggestions, I would say at the very top of my list would be reducing the number of political appointees. I think that's a major part of many of our management problems.

Mrs. MALONEY. Thank you. And very last, I know the chairman has scheduled a hearing tomorrow really in response to security for government employees at the General Accounting Offices and other general services offices, and I'm very troubled by a lot of the sort of hate language toward government employees that we are hearing about that is taking place across the Nation.

And I would just like an open question if any of you would like to comment on it, on what steps government should be taking to lessen this type of anxiety, this type of talk, and to protect public servants.

Mr. KETTL. Mrs. Maloney, one thing that I have been struck by over this last week, is on the one hand, the enormous national depth of feeling for the enormous tragedy that occurred in Oklahoma City, but a lack of recognition that almost all the people who died were either Federal employees or those in the office building to visit and do business with Federal employees. The victims were really people there trying to do their jobs. On top of that, these were the folks who represent the typical Federal employee.

Eighty-eight percent of all Federal employees work outside of Washington in offices just like the one in Oklahoma City that was bombed, and I think greater recognition of the fact that here were people, honest people, good people, trying to do their jobs in the best way they knew how and met tragedy in this way might be the foundation at least for stopping to ask what it is that we want to accomplish here.

Mr. FOSLER. Certainly the United States in particular has a long tradition of mistrust of government. That was the nature of our founding. But we also see the problem as being very deeply ingrained in industrial democracies throughout the world. We're not alone in the problems that citizens have in their feeling that government is not living up to their expectations.

I think it makes sense for us to look at some of the deep-seated reasons why that's the case. I think that there is progress being made, as we've noted. The restructurings that are going on around the world in government as well as other social institutions suggest we're dealing with some very fundamental change issues.

To the extent that committees like yours can take seriously the issue of changing the structure and the operation of government so that it can perform as well as can be expected and that citizens can see that change, I think that the government and the people who understand the importance of government, will be on much more solid ground to be able to say, "We are doing the best that we possibly can." And beyond that the question becomes very much one of perception and rhetoric.

Mr. JASPER. I would like to add a couple of quick points. Everybody from President Clinton and Vice President Gore to Speaker Gingrich has, from time to time, said good things about bureaucrats but often bad things about the bureaucracy. The idea that

you can go around condemning the bureaucracy and exempting the people who reside in that bureaucracy, I think, is a mistake. I think if you tar the bureaucracy, you end up tarring the bureaucrats as well.

The rhetoric of dumping on government is just so endemic that it's hard to know what to do about it, but the Congress has a serious responsibility. For example, at this time of the year, everybody is acutely aware of how complicated the Tax Code is. People blame IRS for these obscure regulations, but IRS doesn't write such obscure regulations because it wants to. It writes them because the Tax Code is so complicated. And the Tax Code is enacted by the U.S. Congress.

Mrs. MALONEY. Thank you.

Mr. HORN. You make a very good point on that. As we have said in previous hearings, and it was repeated by one witness in this hearing, often we have such euphemisms that we use to bring people together to get something done, but we don't really give appropriate guidance to the agencies in writing on the specific regulations that carry out the laws that we propose and that the President endorses. So there is no question that's a problem.

Mr. Jasper, you also mentioned that the focus when you talk about procurement should be on getting the mission accomplished. Would you find the same problem exists in terms of the culture of many personnel officers, or do you see some changes that have come along there since OPM was created?

Mr. JASPER. Well, I'm generally with you in recognizing that the personnel bureaucracy—I'll use that word—has developed a certain control mentality similar to the procurement mentality. It's to keep people from doing the wrong thing rather than to help them to do the right thing. Whether the "reinvention" of OPM has solved the problem, I would not be sanguine enough to say so. I think perhaps not.

I think probably the delegation of authority from OPM to the agencies, which we are seeing under NPR, may prove to be helpful. But of course it has a down side, which means we may end up with a thousand personnel systems and then mobility and things like that which are good values may be jeopardized.

Mr. HORN. How much mobility do we really have in the existing system? I don't see much in the Senior Executive Service and that should be the one where we should encourage mobility.

Mr. JASPER. You are absolutely right. There used to be a fair amount of mobility at middle ranges and that has declined. And partly because it is hard to have mobility when you are downsizing. It is easier to have mobility when things are stable. It is going to be hard to have much mobility in the current environment.

Mr. FOSLER. I might mention, Mr. Chairman, with the decentralization in the personnel or human resource management area this does open up a great opportunity to try to basically rethink that function and how it can be more closely tied to achieving agency mission.

In that regard, the academy is working with a consortium of 32 Federal agencies and the human resource management people in each of those agencies to really fundamentally rethink what is the purpose of the personnel or HRM function. How can it be restruc-

tured or focused on program managers in assisting agencies in accomplishing their mission?

With minimal resources, I think there is progress being made. There really are talented civil servants who are yearning for the opportunity to get out from under these constricted systems that they have been working under, and I think that this consortium is providing one opportunity for them to learn from each other and fundamentally rethink and restructure their operations.

Mr. HORN. I think some of you have heard me on this before but I will repeat it. When I was in the California State University system, I suggested a management track. Essentially it resulted in four basic categories. They all overlapped everywhere between the $30,000 level and the $100,000 level at that time. This is the early 1980's, and the advantage to that was to collapse dozens and dozens of formerly civil service positions into broad categories and put the stress that if you started at the bottom you could work your way all the way to the top.

There were overlaps between areas and salaries so salary didn't become everything, but you rewarded people based on specific goals set and reviewed at least twice a year as to what that manager was going to accomplish with the people for whom he was responsible.

And I must say that was one of the great freeing aspects that occurred because it suddenly let management and their employees work together to achieve particular goals, and that trickled all the way up to management. And the president of the university personally signed off on it and reviewed it.

So I don't know how much we have achieved getting there. We have a Senior Executive Service. We have a lot of key positions that really do the work of the agency experts in science, experts in administration, and other very complex matters. But why can't a system like that start at the very bottom with the supervisor of janitors, if you will, with the plant and operations. Certainly if you maintain the billions of dollars in investment we have in these agencies, and try to encourage that type of overlap, that type of focus that we see in the Oregon Benchmark Project, the New Zealand project and others will result.

Mr. FOSLER. Well, there have been experiments with broad banding within the Federal Government that have been going on for years and years and have been quite successful, and we certainly think it's time to extend that now much more broadly within the executive agencies.

I would say in this regard it's going to be very important to assure—and this is an important role that the Congress and this committee can play—that the systems that are developed for individual performance management evaluation of the kind that will be forthcoming through the administration's civil service reform are clearly tied to performance management systems for agencies as a whole. Because if these systems are going to work where you establish clear goals for individuals and then hold them accountable, you need to be certain that individual goals are tied to organizational or agency goals.

And it is very simple, especially with the stovepipe cultures that have been developed within the government, for these personnel

systems to be reinvented or restructured without taking account of the agency performance management systems.

The GPRA provides a good base for the agency system but it doesn't talk directly to individual performance. The civil service reform proposals that are on their way talk about individual performance management but it is important that they be linked clearly to the GPRA. To date, that hasn't happened.

Mr. HORN. Mr. Kettl, did you have any comment on that?

Mr. KETTL. I think that is right. And if you look at experience of Australia, one of the things that you see is that, first, there is increasingly emphasis and importance put on the business of managing for performance. Second, to try to focus agency results on performance and outcome and output measures. But finally, an effort to take both of those pieces of the system and use it to try to create incentives for the behavior of individual bureaucrats. Ultimately what you do is you start with the broadest perspective and go to the behavior of the individual manager. And the Australians are quite a bit ahead of us in that, but they give a lesson about how in part it could be done and the importance of making sure that all those linkages are created. That, in the end, is the most important thing.

Mr. HORN. I think that point is well taken. I said the other day to somebody that there are two studies I have seen in K–12 education that make sense to me. The one is that the principal sets the tone in the school and you can either have a creative atmosphere or autocratic atmosphere or anywhere in between.

Before rounding this out, let me ask, as it has been mentioned by several that the Office of Personnel Management, General Services Administration ought to be to, quote the popular term, "devolved" to the operating agency. Do most of you agree with that, and if so, what functions would stay with GSA, what functions would go to the agencies, and what would happen to the Office of Personnel Management?

Scott, do you want to answer that?

Mr. FOSLER. I would say that we have already seen a substantial decentralization or devolution, a pushing out of authority to the agencies, which, by and large, is quite appropriate, and that probably should continue.

Now, I think it's also essential that while we are decentralizing and encouraging the agencies to develop their own systems that are appropriate for their missions, that we maintain some kind of central function that includes leadership in assuring that appropriate kinds of principles are applied in the development of these systems, and assuring that there is attention to building the capacity to make them work even if the central agencies don't provide that capacity themselves.

And then oversight, to assure that in fact the system is working and that the agencies are taking the responsibility that's being given to them to determine how to tailor these systems.

Those functions, it seems to me, are critical and they go hand in hand with an attempt to decentralize responsibility.

Mr. HORN. Herb, any comments by you?

Mr. JASPER. I agree completely with Scott. The key is guidance and assistance on one hand and oversight on the other. Those are the key ingredients.

Mr. KETTL. By way of emphasizing that point, Mr. Chairman, New Zealand has decentralized those functions out as broadly as almost anyone in the world. What they have discovered is a risk of going too far.

They are in the process right now of trying to redefine what the central mission ought to be, but they are rediscovering the fact that there has to be one. They are in the process right now of rethinking what it is that the central government agencies have to do in providing basic guidance, basic support, basic information collection, but most importantly, basic leadership for the way in which those systems ought to operate.

Mr. HORN. I think it's obvious that there ought to be a central contract in a way for delivering paper to the Federal Government, of which we complain and discuss regularly. There are certain things that we can do on a centralized basis to get economies of scale, and that was the whole purpose of the Hoover Commission recommendation in that area.

But would you say we have failed to achieve the mission that the first and second Hoover Commissions suggested? We hear nothing but complaints about GSA; the current administrator wants to substantially reform the agency to try to take into account those complaints.

Mr. FOSLER. I think we go through different swings of centralization and decentralization and to some extent one extreme leads to problems that results in going back in the other direction.

I think where we're headed—and the restructuring that's going on in the private sector demonstrates this—is being much more selective in looking at those functions that ought to be decentralized and those that can be better performed on a centralized basis. If there are substantial savings to be made from bulk purchases, for example, there is no reason why it shouldn't be done. If there are savings to be made and if performance is to be enhanced by decentralizing responsibility for some kinds of functions on purchases of items, that should be done.

Corporations are discovering this. One of the latest inclinations of corporate restructuring is to recognize that some of the decentralization has gone too far and that there are certain functions that may be better brought back into a centralized office.

Mr. HORN. Let me move from that to the buy-out system that's used in various personnel plans of the Federal Government, the private sector, and the nonprofit sector. Should there be more flexibility in the use of buy-outs? Should we not tie the offering or nonoffering of a buy-out to people that are stars in the agency?

I find when you get into this situation you lose some marvelous good people as well as the people you are glad to say good-bye to, and that worries me. Are there some solutions to that one?

Mr. JASPER. I think it's a major problem which I touched on in my prepared statement. In order to mitigate the adverse impacts on people of downsizing through reduction in force, we went to buy-outs and early outs and so forth. I think we have created our own "brain drain."

I've talked to people in agencies who say the best people are leaving and some of the people who are staying are not the best. So I don't think it was the right answer. Do I have a better one? I'm not sure off the top of my head I do.

Mr. FOSLER. I think I agree entirely. That is a serious concern. We're losing a lot of good, experienced people. I think we're going to pay the price for it, and I think the answer to it frankly is just good, tough management.

We need to define what it is that the agencies are supposed to be doing and we need managers who have both the skill and the determination and the courage to say this is the work that needs to be done. These are the people we need to do that work and these are the specific people who we must and will retain. The others we don't need and they are going to have to go.

Mr. KETTL. You look at the way in which the decision was made to try to shrink the Federal Government by 272,900. In fact, there is no good explanation for it. There is no single, coherent, logical explanation for why that figure above any possible alternative was chosen or what it is that that downsizing figure is going to produce. What it will produce is 272,900 fewer Federal employees, and beyond that we can't say much of anything.

If we're going to try to shrink the bureaucracy, which we need to do if we are going to try to restructure it, which we need to do, we need to think about what it is we're trying to accomplish in the process and make sure that as we do it we don't run the risk of making things worse as we go along.

Mr. HORN. Ms. Maloney, any more questions?

Mrs. MALONEY. I have no other questions, but, Mr. Chairman, I would like to have my opening statement inserted in the record. Thank you.

Mr. HORN. Without objection, the ranking member's opening statement will be put in the record at this point, as will the statement of Mr. Bass of New Hampshire, who unfortunately was not able to be here.

[The prepared statements of Hon. Carolyn B. Maloney and Hon. Charles F. Bass follow:]

PREPARED STATEMENT OF HON. CAROLYN B. MALONEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. Chairman. Thank you for initiating this series of hearings on the National Performance Review. There have been a number of success stories over the past two years that have made the government work better and cost less. Many of these were described in a Special Order last February. But the job is far from over, as anyone in the Administration will tell you.

I won't recount all that was said during the Special Order, I would rather focus on where we go from here. But first, it is important to congratulate the President and Vice President who brought the vision of the NPR to the Federal government. We also should salute the thousands of Federal workers who are responsible for implementing the ideas of the NPR, and without whom none of this could happen.

Any process to bring drastic change to an organization faces a serious set of obstacles. The first steps are often the easiest. In most organizations there are surface changes that can make a dramatic impact. We saw examples of this in procurement reform. For example, the introduction of a credit card for basic purchases cut out the $50 of paperwork required to buy a $4 stapler.

Next, and significantly harder, are changes in the culture of the organization. This means changing the way people think about their job. It means those on the front line delivering services to citizens have to change how they think about and

talk to the citizens they serve. It also means managers must change how they work with those they supervise.

We have seen examples of this as well—most notably in the Veterans Administration. Hopefully we will soon see a similar culture change here in Congress. I hope these hearings will be the beginning of a culture where we work to support the Administration in these difficult endeavors.

What remains is perhaps the most difficult change for both the Administration and Congress—investing in the future. Much of what has been gained so far has been short term, quick savings. Much of what remains will generate even greater savings, but not the kind that can be scored by the CBO. Investment in management and technology often pays huge dividends, but is only accounted for as a short term cost. Investment at the Social Security Department has alleviated the need for hundreds of employees. But those savings are never counted.

Similarly, investment in management reaps enormous rewards that are rarely accounted for. A Civil Service Subcommittee hearing last month on contracting out government services showed clearly that the single largest weakness is the lack of personnel to manage the contracts. The investment in training those managers will payoff handsomely down the road. But where will the money for this investment come from in the current political climate. If we don't realize that improving the government also means investing in it, we will do little more than make matters worse.

Finally, I would like to emphasize a point that Dr. Kettl will make in her testimony. Congress has move quickly to force downsizing of the government workforce, and continues to do so. Almost daily we hear reports of this or that agency proposed for elimination. But if there is any lesson to be learned from private enterprise, and from state and local governments, it is that downsizing for the sake of downsizing—without a plan for why and how it should be done—does more harm than good.

It is time for Congress to play a constructive role in the NPR's reinvention efforts. I hope that these hearings will provide the basis for that bipartisan effort. Thank you Mr. Chairman.

PREPARED STATEMENT OF HON. CHARLES F. BASS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW HAMPSHIRE

Mr. Chairman, I would like to thank our distinguished guests for agreeing to testify before us today. This is the first in a series of very important hearings, and I am looking forward to their input.

I am particularly interested in this hearing on the National Performance Review, or NPR, as I am also a member of the Civil Service Subcommittee. In that Subcommittee, we have already looked into the downsizing of full-time equivalent, or FTE, personnel that has resulted from NPR. I expressed my concern during that particular hearing that the Administration is taking almost all of its FTE reductions out of the Department of Defense, and that some FTE cuts are represented by positions that were never even filled.

I am also interested in hearing the perspective of Mr. Dale from the New Zealand Treasury. New Zealand has been aggressively reforming its public sector for the last decade, and I believe we have much to learn from their experience.

I thank the Chairman.

Mr. HORN. Let me just say in conclusion, while I would love to have this go on, we have another vote and we are all saved by the vote. I am not, but you are.

I want to thank the individuals on both staffs that have helped contribute to this hearing. Anna Young, to my left, your right, is the professional staff member primarily in charge. J. Russell George, the staff director for the majority; Mike Stoker, counsel; Mark Uncapher, counsel; Mr. Mark Brasher, professional staff member; Tony Polzak, our legis fellow; Andrew Richardson, clerk; and Wallace Hsueh, staff assistant have all been helpful. And I know Mrs. Maloney has a very competent staff because I frequently borrow ideas from them. We also thank the official reporter, Richard Whalen, for taking down this hearing.

And with that, we will adjourn. We thank the panel and all our preceding panels, but especially this panel, for the wisdom you have provided.

Thank you. The hearing is adjourned.

[Whereupon, at 1:46 p.m., the subcommittee was adjourned.]

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