CONSOLIDATING AND RESTRUCTURING THE EXECUTIVE BRANCH

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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CONSOLIDATING AND RESTRUCTURING THE EXECUTIVE BRANCH

TUESDAY, MAY 16, 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 2:10 p.m., in room 2154, Rayburn House Office Building, Hon. Stephen Horn (chairman of the subcommittee) presiding.

Present: Representatives Horn, Davis, Fox, and Maloney.

Staff present: J. Russell George, staff director; Mark Uncapher, professional staff member and counsel; Andrew G. Richardson, clerk; Wallace Hsueh, staff assistant; Donald Goldberg, minority assistant to counsel; Matthew Pinkus, minority professional staff member; and Elisabeth Campbell, minority staff assistant.

Mr. HORN. The hearing will come to order and the Subcommittee on Government Management, Information, and Technology will proceed with the afternoon hearing, the third of nine hearings focusing on making government work.

We are meeting to consider ways of consolidating and restructuring the executive branch. Our scope extends to reducing the size of individual departments and agencies as well as combining them. Some of us remember that 2 years after the end of World War II, the separate War and Navy departments finally inched closer together and became part of what was initially called the National Military Establishment in 1947, and which in 1949, became the Department of Defense. We also remember when the Post Office Department became the U.S. Postal Service, a semi-independent corporation. In these cases the mission, the work load, the people have all stayed in place; only the names and organizations changed.

Now we are looking at more than cosmetic changes. Our path of examination, review, and analysis could lead and should lead to significant reductions in one or more whole Cabinet departments. That would be an action unprecedented, never before accomplished in our Nation's history.

Today, we expect to hear about several bold and imaginative plans for reducing Cabinet departments. Each of these plans goes beyond the familiar, "what can government do better" to ask, "what are the best things government should be doing." We want to use this information to not only shrink government's size but also to raise its effectiveness, its efficiency, and its friendliness to the taxpayers of America.

Our witnesses today form a most distinguished group. We will hear from House Science Committee Chair Robert Walker of Pennsylvania; we will hear from former Commerce Secretary Robert Mosbacher, Representatives Sam Brownback and Todd Tiahrt of Kansas, and Dick Chrysler of Michigan, leaders in the freshman class in taking a look at the executive branch; Scott Hodge of the Heritage Foundation, Jerry Taylor from the Cato Institute, and Mr. Herbert Jasper of McManis Associates. We look forward eagerly to all of your testimony. I will now ask the ranking member if she wishes to make an opening statement. Mrs. Maloney of New York?

Mrs. MALONEY. Well, I, first of all, would just like to thank the chairman for calling these hearings on ways to make government work better and more efficiently. I look forward to Chairman Walker's testimony.

The Republican leadership and Budget Committee have made it pretty clear that their goal is to eliminate government agencies, not to create new ones. So I look forward to hearing his comments and how he feels how we could be saving money by creating yet another agency. Thank you very much.

Mr. HORN. Now, as the chairman of Science knows, this is the one committee that swears all witnesses, no matter how high in the hierarchy, Member of Congress or Cabinet officer, so, Mr. Chairman, if you will stand and raise your right hand.

[Witness sworn.]

Mr. HORN. The witness has affirmed.

Of course you and the other witnesses, your full statement will be put at this point in the record, and we ask you, as you know, to summarize in 5 or so minutes.

STATEMENT OF HON. ROBERT S. WALKER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. WALKER. Thank you, Mr. Chairman. I am delighted to be back in this room where I spent many years on this committee, and this committee does some extremely interesting work, and I am delighted to have an opportunity to bring this proposal before you today.

As you know, my proposal is to create a Department of Science. It has been my hope ever since I arrived in this body that Congress and the executive branch might become more forward-looking institutions. It seems to me that we are always trying to solve yesterday's problems. Instead government ought to be looking at ways to anticipate what lies ahead and enact policies that are future oriented.

Naturally it follows that the organizations which formulate and administer these policies should be rationalized to reflect the rapidly changing nature of our society. It is for this reason that I have long been the advocate of a Department of Science. To me, it would be the executive branch's focal point for future oriented programs within the Federal Government.

As we enter the 21st century, science will play an increasingly important role as a driver of economic growth. As we have seen in the recent past, inventiveness has been a key to job creation. The Secretary of Science would be a member of the President's Cabinet, who would work with other Cabinet Secretaries to assure that new

ideas are brought to bear on the policy deliberations of the executive branch's most important policymaking council.

The department I am proposing would combine the science elements of the existing Commerce and Energy Departments as those two agencies are terminated. We would also incorporate into the new department the National Aeronautics and Space Administration, the National Science Foundation, the Environmental Protection Agency, as well as the U.S. Geological Survey. These organizations would no longer be separate independent agencies.

There are several reasons for bringing these entities together in a new enterprise. First, a Cabinet department would be able to highlight the role of science in making government decisions. We have just completed a long debate in this body concerning the role of science in the regulatory process. During our deliberations on risk assessment, we voted overwhelmingly to base regulations on health, safety, and environment on sound science. A Department of Science would be the agency that would help formulate and refine policies that would allow the government to place its regulatory decisions in an objective framework.

In addition to being a focal point for much of our scientific endeavor within the government, the proposed Department of Science would achieve significant cost savings by bringing together various elements of our science enterprise. By so doing we would be able to reduce administrative overhead by eliminating separate legal, personnel, budget, and administrative functions. Under my proposal, the Secretary of Science would be able to examine areas of program duplication and eliminate those programs which replicate one another.

The savings a new department would achieve are substantial. I have had the Congressional Budget Office do a preliminary scoring of my plan. CBO's estimate is that if only 5,000 jobs are eliminated, a new department would achieve a savings of $2.1 billion over a 7-year period.

To put this figure into perspective, a reduction of 5,000 employees would account for a little more than 5 percent of the workforce of the new department if one were to transfer all the employees of the existing departments into a science agency. Therefore, we believe it is very possible that that figure could double to 10,000, which would still be a figure well below what the reorganizations of business and industries are experiencing. A savings of 10,000 employees would actually generate over $4 billion of savings during a 7-year period.

Other savings will be realized in the elimination of other portions of the current Commerce and Energy Departments. For example, I am proposing the sale of the Power Marketing Administrations within the Energy Department, as is proposed in the budget that was brought forth from the Budget Committee the other day. Such a sale would not only create revenues for the Federal Government from the sale itself, but would save an additional $350 million a year through termination of the Federal subsidy for these organizations.

Mr. Chairman, for the first time in many years we are looking at a major restructuring of the executive branch of government. We should take this opportunity not only to downsize what everybody

acknowledges is overly large, but we should also look to see what are things of the past. Many of the charters for the Cabinet agencies were formulated during the 19th century. If we reduce the size and scope of government, we should rationalize what remains into cohesive units which address problems as they exist today.

Thank you, Mr. Chairman. I will be happy to answer any questions that you have.

Mr. HORN. Thank you very much. We appreciate your long-standing interest in this.

Let me ask a few questions. I happen to have been a former dean of research and a university president. One thing that universities have wrestled with, is whether there is an advantage in having a diversity of science activities spread across the Federal Government. As you might know, the Department of Agriculture was historically the great scientific institution of the Federal Government, had more Ph.D.s per square foot than most universities in America and did substantial research, with both their field stations and land grant support that we went from 50 percent of the farmers on the farm to 2 percent and even down to 1½.

So the question is, should we have a czar of science in the Cabinet or is there some advantage in having basic, applied and developmental research spread out among the Cabinet-level departments? What criteria would you use to sort that out?

Mr. WALKER. I think that is a very legitimate question and one that has caused me concern as we have developed the project. If you will notice, for example, the military R&D is not transferred into this department, the NIH is not transferred into this department, the Agriculture R&D is not transferred into this department. There are several other Cabinet-level departments that have their own R&D agencies that are not transferred in this. That would protect, it seems to me, the kind of diversity that I want to keep in science as well.

The idea behind the agencies that are transferred into the Department is largely that there are many places where we end up with a lot of duplicative research, and they do represent some of the premier civilian R&D agencies, and I believe that you can better coordinate that research through this kind of entity and yet maintain a diversity by making certain that there are other places within the government that people can go with appropriate proposals. So we tried to achieve a balance on that.

I don't want a science czar, either, but I do want someone who has the ability to speak up at Cabinet meetings on behalf of scientific endeavors, and it seems to me that in the world of the 21st century that is the kind of person that you want to have in the room.

Mr. HORN. On the point of speaking up in Cabinet meetings, would you say that the Office of Science and Technology and the science advisor ought to be abolished if we adopt the plan?

Mr. WALKER. That is included as part of the proposal that the President's science advisor would be duplicative at that point. That is a subject of some controversy. I had one of the former science advisors to the President suggest to me that while you might want to down scale OSTP, you might want to also leave somebody in place that would be in the President's personal office for this. I

don't have a particular problem with that as long as it is not a other bureaucracy within the White House.

OSTP today is a fairly large operation. To have someone there who simply advises the President on science would be fine, but I think the kinds of things that have been done in that office to coordinate scientific policy ought to be moved to the new department.

Mr. HORN. That is an interesting point. You are well aware of the relationship between the National Security Advisor and the Secretary of State, and Secretary of Defense. I suspect that if you continue the science advisor, you would have some of those tensions. But when you are keeping big chunks of science, such as NIH, out of the Department and you have defense science support, which is also fundamental in the country, you need somebody to give that outside perspective to the President.

Mr. WALKER. I think that is legitimate. I would say to you, though, that the other thing is right now that the coordination is all supposed to be taking place through OSTP. The fact that you have these scattered programs—we have found, for instance, when we have wanted to put together a new launch vehicle and you have concerns at DOD about it, at Transportation about it, at NASA about it, it was very, very hard to get all of that coordinated.

I am concerned right now that some of the work that we are doing in Mission to Planet Earth and other global warming projects are very duplicative and may, in fact, be causing the science to be questionable simply because we are getting a lot of information from a lot of different sources that doesn't seem to match up. That may have been something that was misread in the way in which we designed those programs in the first place. I think you just get some better designs out of something which is more coordinated.

Mr. HORN. Obviously, some of the functions you have in here are notorious for their regulation potential. The Environmental Protection Agency being the case in point while we are debating the Clean Water Act. So does that really, in your judgment, belong in a Department of Science, or should that be somewhere else as a regulatory arm?

Mr. WALKER. Well, that is a policy issue, and it is one that I feel fairly strongly about, and that is that if you are going to do environmental policy in this country, it ought to be based upon sound science, and so therefore having it under the aegis of a Secretary of Science that suggests that science has to be at the base of what we do environmentally makes sense to me. It assures, I think, that the kind of regulating that is done is not done out of political pique of some sort but is actually done based upon an overall science orientation, and so I think bringing that kind of a regulatory agency in here is the right policy choice.

I am sure there will be many who will differ with that judgment, but I happen to think it is the right judgment and one that I specifically decided ought to be here. The fact is that the best work that EPA does is when they do peer reviewed science, and then when we have scientific judgment behind the regulatory process that moves forward based upon that science.

Mr. HORN. Let me ask one last question. You mention the inclusion of the U.S. Geological Survey. How about the inclusion of the U.S. Biological Survey?

Mr. WALKER. Well, the Biological Survey was one of those things that was being abolished under the budget that we were presenting. If, in fact, that represented an agency that was still in existence at the time we went here, they would be a logical place for that agency to go. Part of what we are drafting at the present time is based upon some of the budget assumptions that are presently moving forward.

Mr. HORN. Well, some want to get rid of the U.S. Geological Survey, but historically that is one of the great institutions of science in this country.

Mr. WALKER. Well, I have never supported the idea of getting rid of the Geological Survey. One of the things that I have been told by people who are at the Geological Survey is that there are some of the things that they now do, for instance, their mapping service, that could be privatized and would make for a more efficient and effective agency. I think we can do that, but I think you are right, the Geological Survey should be preserved. Again, I think its hand in being able to survive would be strengthened by making it into part of a premier science agency rather than allowing it to stand alone as an independent target.

Mr. HORN. I now yield 5½ minutes to my colleague, the ranking member from New York.

Mrs. MALONEY. Thank you very much. Mr. Chairman, I would first like to ask permission to have added to the record a statement by Congressman George Brown of California.

Mr. HORN. Without objection.

Mrs. MALONEY. Thank you.

[The prepared statement of Hon. George Brown follows:]

PREPARED STATEMENT OF HON. GEORGE BROWN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to contribute to the debate regarding the role and structure of the Federal Government. The structure of government is not defined simply by bureaucratic convenience; it embodies our decisions about what will meet the aspirations of the American people, in the most efficient and effective manner. The architect Louis Henry Sullivan captured this best in his epigram, "Form ever follows function." These hearings offer you the opportunity to review why the Government exists in the form that it does, why it performs the tasks that it does, and to carefully consider which functions must be preserved in the new structures Congress may determine for Federal agencies. I submit for the record an article by Rufus E. Miles, Jr., entitled, Considerations for a President Bent on Reorganization. Its audience might have been the Chief Executive, but the points made here have equal validity for us in our role as "board of directors" for the Federal Government. I call your attention to the author's primary point:

> Organization is an important expression of social values; are the values that deserve greatest emphasis at this stage of the nation's development given appropriate organizational recognition?

Attention has focused recently on proposals to eliminate the Departments of Commerce, Energy and Education, and the possible formation of a Department of Science. If we ask Miles's question in evaluating these proposals, what answer might we get?

Let me begin by considering the roles of the Department of Commerce. I submit that the Federal Government requires a locus of expertise in dealing with the complexities of the domestic and international business communities. We no longer have the luxury of ignoring what happens in business beyond our shores; importing and exporting makes the difference between profit and loss for many American firms today. Our international competitors often receive extensive government assistance; witness the disputes we have had with the European Community on the level of support given to the Airbus consortium. We may decry this and point out the distor-

tions it introduces into their economies, but it does not keep Airbus from reducing the share of the aerospace market earned by Boeing, McDonnell-Douglas or other U.S. firms. I note that Robert Allen, chief executive officer of AT&T, stated in the Wall Street Journal for May 15, 1995, "This is one of the most active Commerce Departments we've ever had, especially in terms of getting business abroad." Mr. Richard Rosenburg, chief executive officer of BankAmerica Corporation, is quoted in the same article that, "The functions that are critical to business need to be preserved."

Representing U.S. business is not the only essential function performed by the Department of Commerce. The Constitution reposes in the national government the responsibility for fixing weight and measures; the Founding Fathers knew that a national economy could never develop if Georgia and North Carolina were constantly disputing how to measure a pound of peanuts, peaches or potatoes. The collection of weather information became a national responsibility because Congress was determined that farmers would not lose their entire harvest due to lack of warning about storms or frost. For many years the task was assigned to the Army Signal Corps; Congress feared that, absent military discipline, the harsh conditions at many observing sites would induce those responsible for collecting each day's data to neglect their duties. Local meteorologists may bring to bear their familiarity with local conditions in making forecasts, but they all begin with the data and forecast models supplied them by the National Weather Service. I wonder how many private firms are truly prepared to accept the responsibility for maintaining the quality of this data collection.

From the Department of Commerce, let me turn to the Department of Energy. The critical nature of energy to the well-being of America was demonstrated conclusively in 1973 and in 1979; those in Congress at that time remember vividly the lack of coordination hampering our national response to the restriction of oil supplies. The Department inherited its other major mission, management of the Nation's production complex for nuclear weapons, when Congress disbanded the Atomic Energy Commission (AEC). Congress made a policy decision in the early days of the Atomic Age that nuclear weapons would remain firmly under civilian, not military, control and created the AEC to carry out that policy. Congress did not change that policy in 1977 when it decided to place nuclear weapons production in the new Department of Energy. The Secretary of Defense, in a March 29 letter to the Committee on National Security, stated that he believes the current division of responsibility maintains "institutional checks and balances that are vital for meeting the performance, safety, and reliability requirements of the nuclear arsenal."

These are national interests; they are vital to Americans wherever they live. Few are satisfied with the current performance of the agencies responsible for these interests, but their elimination does nothing to relieve us of the issues they raise. We may make the Department of Energy, the Department of Defense or the Environmental Protection Agency responsible for cleaning up the nuclear weapons production complex; the cost will most likely be the same. However, no one can argue that the Federal Government may walk away from this responsibility. In the name of the Nation's security we severely damaged the environment in a number of States; we cannot abrogate the moral contract with those who live near or worked at these facilities that was created by our zeal to produce weapons. I wonder if the disruption inherent in transferring this function to another agency will cost more than the minor amounts we might see from the elimination of the Department of Energy. Indeed, in reading of plans to eliminate these departments, I often find that many of their activities will simply move to some other agency. I believe you owe it to your fellow Members to compare the proposals to eliminate departments while retaining functions to the efforts now underway at the direction of Vice President Gore to refocus agencies on their missions, eliminate inefficient management practices and reduce spending.

I turn now to a more personal concern. As Ranking Democrat on the Science Committee, and its former Chairman, I am of course vitally interested in the fate of the research efforts within the Federal Government. Science and the Federal Government have had an unwritten contract for the last four decades in which government support for science was rewarded by improvements in the Nation's welfare. I think there is a consensus that this contract has been successful for both parties. It is deeply troubling to me that recent efforts to bring our budget into balance threaten to undermine the long-term stability that is vital to preserve the scientific capability we have painstakingly developed. In the past, I have had some interest in the establishment of a Department of Science. My support, however, was predicated on the availability of a robust budget for science and technology.

The idea of the Department of Science has a long history; Members of the House and Senate met in a joint commission in 1884 to give the concept its first serious

consideration. Skeptics abounded, both in government and in the science community, each time the idea has been raised. I have talked at length about the Department with Dr. Alan Bromley, Science Advisor to President Bush, who finds this idea less than compelling. I submit for the record an article from New Technology Week indicating that his predecessors in the Ford and Nixon Administration share his views. I further submit for the record the statement made by the current Science Advisor, Dr. John Gibbons, to the American Association for the Advancement of Science last month indicating his lack of enthusiasm. Your Subcommittee would find it very useful to obtain the advice of these officials in conducting your review of this proposal.

Before proceeding with a Department of Science, we should debate a number of important issues:

- What goals would Congress set for the Department, and how would the accomplishment of these goals be measured?
- Would centralization of research functions prove more beneficial than multiple sources of funding?
- How would the Department of Science improve coordination of research efforts over that now provided by the Office of Science and Technology Policy?
- Would the Department of Science be able to adequately support other mission agencies of the Federal Government?

I conclude, Mr. Chairman, by noting that Americans have always been a strongly practical people. When there is a job to be done, we do not care who does the work or in what manner it gets done—simply that it is done. If the private sector can do the work, well and good. If they cannot or will not, Americans have not long hesitated before turning the task over to government. Today, you are adding to a long tradition of Members who have scrutinized the organization of the Government to assure that it continues to meet the goals set forth in the Preamble to the Constitution. I hope my thoughts here will prove helpful in your deliberations.

Mrs. MALONEY. Congressman Walker, you were quoted in Congress Daily last week as saying that your proposal was dead. If that is true, why are you here?

Mr. WALKER. Well, as most of us understand, sometimes things that we are quoted as saying end up being misstatements. I think that my statement there was that it was dead in the present budget, that it is not something that had flown in the budget. I went on to say, however, that I thought that as we tried to rationalize a number of the things that were in that budget in terms of policy choices that it was likely we were going to come back to the Department of Science as being a rational choice of finding a way, for instance, to park the weapons program that would be now out of the Department of Energy, to do some of the work of finding places for institutions such as the National Institute of Standards and Technology and NOAA at Commerce. These are programs that we are going to want to keep.

The question will be whether or not we make independent agencies out of all of them and then have the overhead of those independent agencies or whether we find a more rational choice, which I think happens to be a Department of Science, where you can park a number of them with a degree of coordination that is in the line of common sense.

So I feel as though I was somewhat misquoted because I did say that the budget does not assume the Cabinet level, but I went on to say that I thought the Department of Science was still very much a live issue.

Mrs. MALONEY. Your colleagues in the Republican leadership and in the Republican party have made it very clear that they want to downsize government and save money. Do you foresee Speaker Gingrich or Representative Kasich supporting this proposal for a new department?

Mr. WALKER. Well, Chairman Kasich has already been one of my main press agents for this idea. In fact, the reason why it emerged is to have—something that popped up early on in this year was because Chairman Kasich was making some favorable statements about it as he moved around holding press conferences. They would support it only in the context that it does contribute to our overall downsizing.

As I pointed out in my statement, we have CBO numbers indicating that you could save considerable amounts of money with this kind of coordination, and that does make sense. We are not looking to form new departments simply for the purpose of having another new department. Any proposal I have ever put forward in this regard has anticipated killing at least one other department in order to make this one work, because I am not interested in adding new bureaucracy or new overhead; I am interested in making certain that as science is worked on as a policy matter, it is done so in the most efficient and effective way possible.

Mrs. MALONEY. Your plan calls for transferring the Department of Energy and the Environmental Protection Agency to the new Department of Science. Would all the regulatory programs currently administered by the Department of Energy and EPA also be transferred?

Mr. WALKER. Well, in a number of cases, certainly the EPA's regulations would be done. In other areas where the Department of Energy is presently involved in regulation, some of that is being privatized under both what I assume here and what we assume in our budget. But insofar as there were other regulatory functions, yes, they would be transferred into this agency.

Mrs. MALONEY. If the new science department is going to have to run the cleanup program at weapons complexes, Superfund, and other environmental programs, is that not going to detract from its goal of research?

Mr. WALKER. Under the plan that we are now putting together, and as I say, we are——

Mrs. MALONEY. And could I add a question, a side question, to it, what do you envision the breakdown to be between the amount of resources you propose the new department would have for regulatory activities versus research?

Mr. WALKER. Well, first of all, we do plan under the legislation that is in the process of being drafted to take the cleanup activities and transfer those to DOD. Now, this is not something that DOD will probably be overly thrilled about.

Mrs. MALONEY. Secretary Perry has objected. It was part of the earlier hearing.

Mr. WALKER. I understand that. But, again, trying to make certain that we do make this department into the kind of operation that I think it should be, we are trying to rationalize what we do, and so we would transfer the cleanup functions to DOD in this particular proposal.

I would suspect that the balance between regulatory and R&D functions would not be markedly different than it is right now in terms of overall amounts because you accept that. A number of regulatory functions are things that we believe could be transferred into private sector activities, and as you do that, it would allow

more of the budget to be used either for deficit reduction or for increased R&D activity.

Mrs. MALONEY. In his prepared testimony that will be given later on today in another panel, Herbert Jasper raises questions about the need for a Department of Science and questions whether it meets certain criteria proposed by a panel of the National Academy of Public Administration for establishing new departments. He stated in his testimony, "Science is not a major purpose of the government. Except for the National Science Foundation, government science programs generally exist to further the programmatic objectives of the agency which is currently responsible for them. Inevitably these programs would be weakened by having their science elements removed." What is your reaction to his statement?

Mr. WALKER. Well, again, we remove very little of the science work that those individual agencies are doing. As I said, for the most part, this is independent agencies that are being folded into this department, and we are not reaching into the Agriculture Department, for instance, and pulling out its R&D function and then transferring it to this department. You will find none of that in what we are doing.

I would simply disagree with the characterization that government science is always based upon programmatic needs. I mean, NASA operates very, very important programs that are not based upon programmatic needs. So does the National Science Foundation. EPA in the environmental area would have some of its research devoted to its regulatory goal, but it also does research that is valuable overall in the environment, and so I think that is a mischaracterization of government-sponsored science, and I would vehemently disagree that it is not a major mission of the government. It is in fact fundamentally a mission of government in the past and it will be well into the future.

Mrs. MALONEY. My time is up. Thank you.

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

Mr. DAVIS. Thank you.

Mr. Chairman, welcome. How do you think environmental policy could be enhanced by the creation of a Department of Science?

Mr. WALKER. Well, I think that there are a number of things where environment is synergistic with other things we do in our society. Let me give you one example—energy. I think there are places where a Department of Science would put together R&D programs that would understand our energy needs but yet would also understand the balance of environmental concerns that have to go in.

As you know, I mean, the House recently passed a bill that I am enthusiastic about to sponsor R&D in hydrogen. Well, one of the great things about that is the synergism between the two. You end up, if it works out in a way that can be brought to market, you end up with an energy resource that is almost limitless, and yet is absolutely clean burning.

Well, I think that if you had a Department of Science that you would end up with those kinds of synergisms being a part of policy determination. You don't get that now because everybody is operating on independent fronts, and I think you end up saving money in research and that the national goals that you are trying to pur-

sue in both energy and environment get blended into a common policy theme, which I happen to think would be a plus.

Mr. DAVIS. Thank you very much. I will yield back, Mr. Chairman.

Mr. HORN. The gentleman from Pennsylvania, Mr. Fox, is recognized for 5 minutes.

Mr. FOX. Mr. Chairman, good afternoon. In your testimony I believe you indicated a savings of 5,000 jobs from creating a science department. Where would you see the reductions coming from?

Mr. WALKER. Well, in large part it comes in areas like budget and personnel, you know, the general counsel's office, and all of those kinds of things. It is the super structure that has to exist in every independent agency, that has to exist in every department, and by having one department you can generalize and create that super structure for all of these agencies in one place, and if you take a look at the numbers of people who are involved in those kinds of activities in all of these agencies that I am folding in, you find it adds up to considerable numbers, and I just happen to believe that you can find thousands of jobs that can be replaced there.

I would also point you to the fact that where business and industry has undergone the kinds of changes at top level management that they have had to do and in middle management that they have had to do as they have restructured, many of them have done about a 25 percent reduction. Even if you eliminated 10,000 employees as a part of this proposal, you would be talking about a 10 percent reduction from the work force that now exists. So we are certainly in the ballpark of what business and industry has been able to do when they have gone to restructure.

Mr. FOX. Is the highlight of your proposal the idea of emphasizing the cutting edge of science and technology and where we need to be in the next century as a country, both from an economic and jobs and a research point of view?

Mr. WALKER. Well, if you look around the world, nearly every major industrial power has some kind of science agency at the Cabinet level. You find that throughout the world. The reason why they do is because they believe that science has a very definite economic impact. It provides the fundamental foundation off which we build the economy of the future, and they think that having that kind of flow of information to the top policymakers is probably important.

We haven't done that in this country, and so I start from the premise that that is a good idea. But I also start from the premise that we have not rationalized these programs in any way in the government. They have grown up topsy-turvy over a period now of the better part of 40 or 50 years, and it is time to determine whether or not they should be rationalized. I have come to the conclusion after spending 20 years on the Science Committee looking at these things that that rationalization process is very valuable and should move forward. Others come to different conclusions. But I think in the end that we would be a stronger economic power as a result of recognizing our science in a more coordinated way.

Mr. FOX. Thank you. Thank you, Mr. Chairman.

Mr. HORN. Thank you very much.

Let me pursue a couple of questions. Energy and NASA would be combined into this department. Energy is in charge of the production of the nuclear materials, the most awesome materials that any Federal agency has a responsibility for. There was a conscious decision by Congress to make NASA independent, and not under the military because we wanted to pursue civilian applications, not just military applications. The same decision was made when the Atomic Energy Commission was created. Those functions have essentially gone over to Energy and the National Nuclear Agency.

Now, what is your feeling on being sure that the science department would maintain the civilian control that, for 50 years, Congress has supported? Do you have any other ideas on this?

Mr. WALKER. No, that is one of the reasons why I think that this department makes some sense. It does, in fact, assure that you have a civilian agency controlling the weapons program, for example. Otherwise the logical—there are only two other choices that you make at this point. Either you spin off the weapons program into an independent agency, you go back to the old Atomic Energy Commission concept, or you put it into the Department of Defense, and basically abandon the policy of civilian-controlled weapons programs. I think that in my view the better way of handling it is to make certain it is not an independent agency but it still exists under a Cabinet level authority, but that Cabinet level authority is a civilian. So I think this helps solve that problem.

With regard to NASA, I think the NASA mission has changed significantly over the years, and that the independent status of it is in fact a detriment in some cases. I will give you an example. A place where you would marry up Energy and NASA is in places where you are looking at space power concepts. We have some very, very interesting technologies that we may develop in the future that would allow us to use various kinds of satellites for power generation. It seems to me that having the combined R&D capabilities of NASA and Energy under one directorate might in fact get you a much stronger program rather than operating two independent programs as we presently do.

Mr. HORN. I note with interest that the list of departments you would affect is almost as long as the list of congressional committees with jurisdictions over them. Have you toted up the votes that will be against this proposal, just so they don't lose jurisdiction?

Mr. WALKER. Well, I have not done that total. It is probably a good suggestion to look at it.

In all honesty, one of the things we need to do in the Congress is rerationalize our committee structure. Part of the problem for science programs today is that because of the way in which the independent agencies have grown up, you have science programs in the same appropriations budget with veterans and with housing. It makes absolutely no sense. Those are not things that ought to be competing against each other.

The fact is that they probably ought to be over in the same area that looks at energy matters and other things that are much more closely identified with science enterprises. But the nature of the way the Appropriations Committee structure works has meant that you have these very, very weird kinds of programs competing with each other. In my view, if you put together rational departments

in the executive branch, it might serve to make the committee structure here a little more rational and make certain that we serve the real needs of the economy.

Mr. HORN. Well, I think you are correct. If you look at the suborganization of the Office of Management and Budget, which is the premier institution of the Presidency that brings some to the government control in terms of budgetary authority, management, and so forth.

They have five divisions, based on a rational organization of the government. The President has a chance to present a rational budget with some integration. What do we do with it, in terms of appropriations? We divide the budget up immediately into 13 historic subcommittees headed by a cardinal. We do somewhat the same with the authorization committees. As you say, we have no rationality in our own processes, and this is a chance maybe to gain some ground there.

One last question, on the issue of basic versus applied research. If you could wave a wand and you were the first Secretary of Science, how would you strike that balance?

Mr. WALKER. I always come down on the side of doing basic research as fundamental to our national enterprise and as a role of government. I mean, basic research is that which most people who are in profit-making institutions are not likely to take up because it is going to be 10, 15, 20 years before you see some payoffs from some of the fundamental knowledge that is learned.

But I am also someone who has been in this business long enough to know there is no clear dividing line between the two. The fact is that basic moves into applied that moves into commercial, and it is a continuing rather than any kind of direct barriers, and so the government is always going to be involved in some applied, it is going to be involved in doing some developmental work, it is going to be involved in some demonstrations.

I think the real question for us is once you get out to that stage how long, then, do you provide life support systems for some of these programs and call them science? We have a number of programs where we have taken them from the basic to the applied to the developmental to the demonstration, and now we maintain the demonstrations over years and years and years because they are not marketable and we know how, for instance, to do an energy technology but it turns out that the energy technology can't be profitable unless oil goes to $75 a barrel, but we maintain a life support system for those programs and call it science.

I don't think that is science at that point, and I think that that is where we need to begin to pull back and suggest that we shouldn't do those programs. Beyond that I think some of our programs have turned into corporate subsidies and corporate welfare, and we call it science and we call it demonstration projects, but the fact is that we are subsidizing work that otherwise would be done out of corporate R&D budgets, and I question whether or not that is the role of government.

Mr. HORN. We might well go back to the 1950's and call it the depressed areas bill. I now yield to the ranking member, the gentlewoman from New York.

Mrs. MALONEY. Thank you very much, Mr. Chairman.

How would the Department of Science improve upon the gathering of research and coordination of research that is already done by the Office of Science and Technology?

Mr. WALKER. Well, the Office of Science and Technology policy under the President is largely coordinating that which now goes on within the government. The problem is that it has no real authority to say to these agencies you will do what we say you will do. They have an ability to put together committees and coordinating councils and they can try to get consensus, but they operate only on consensus. In some cases that consensus doesn't lead to policy and in many cases what happens is that the lack of consensus means that you simply have people running off in all directions.

I think having a Secretary with many of these elements under that Secretary's control would give us the ability for everybody to have their day in court, but for real decisions to get made and then real decisions implemented, and particularly when you are talking about policies that cut across a broad swath of the economy, I think that you have got to have some kind of operation in the science arena that permits decisions to be made timely. After all, in some of the places where science is having an impact on our economy, the timeframes are so short at the present time in generations of technological development that if you don't have some decisions made you get bypassed.

A generation of electronics consumer equipment comes and goes in 18 months at the present time. It takes us 18 months to do one budget. From the time the numbers begin to go on paper until we pass the last appropriation bill in the Congress, it takes 18 months to do it. While we are preparing one budget, a generation of electronics technology has come and gone.

Now, somewhere along the line you can't spend a lot of time sitting in meetings for months trying to achieve consensus while generations of technology are passing you by. It seems to me that where this proposal makes some sense is to assure that some real decisions get made in a timely fashion.

Mrs. MALONEY. Thank you very much.

Mr. HORN. The gentleman from Virginia?

Mr. DAVIS. No.

Mr. HORN. We thank you. It has been a most helpful dialog. You have proved yourself, as usual, well informed and articulate. Thank you for coming.

Mr. WALKER. Thank you, Mr. Chairman.

Mr. HORN. Will panel two come forward, Representatives Brownback, Chrysler, and Tiahrt.

If you will raise your hands.

[Witnesses sworn.]

Mr. HORN. The witnesses affirmed. Mr. Brownback, you are Coordinator of the Freshman Task Forces on Departmental Restructuring. I take it you will give us the overview. Welcome.

I want to congratulate all of you in advance. I know you have put tremendous time in on this effort, and I am sure it has been a learning experience for you, as it will be for us.

STATEMENT OF HON. SAM BROWNBACK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

Mr. BROWNBACK. Thank you very much, Mr. Chairman. Appreciate it. Appreciate the opportunity to testify in front of your committee.

Mr. Chairman, I have submitted written testimony that will be here before the record, and I will speak off of notes. What I am going to provide is the overarching framework for what we have done to date and then Congressman Chrysler will be talking about the Department of Commerce and Congressman Tiahrt about the Department of Energy. I will be happy to take any and all questions and comments that you might have.

About 2 months ago roughly 40 colleagues, 40 of us together gathered to propose the elimination of four Cabinet-level bureaucracies—Departments of Commerce, Education, Energy, and HUD. We stated at that time that we would come forward with written proposals sometime late in the spring. We are coming forward with those next week on three of them and then HUD later. We are going to be heading out shortly.

Mr. HORN. There is plenty of time. Why don't we continue. Then we will go at the 10-minute mark.

Mr. BROWNBACK. Sounds good.

Roughly our framework in doing this was to engage the Congress and the public in a couple of debates. No. 1 is that we believe that we were sent here to Congress to radically restructure the Federal Government, that it is too big, does too much, and is too costly at a time when we are broke, nearly $5 trillion in debt. There is another factor in play here as well, and that is that this was always intended to be a limited government, and yet what we have seen take place over roughly the past 200 years arguably, and certainly accelerated the last 50 years, was a government that does everything, not a limited government, not a government that reflects the Federal court system that is a limited court system, but one that says, no. We are all things to all people, and we can do all things, and we question that, particularly when you look back to some of the writings of the Founding Fathers. James Madison talks about the powers delegated by the proposed Constitution to the Federal Government are few and defined. I think that has been broached and been exceeded.

That is a big part of what is driving our efforts here. We have used as an overarching framework in developing this legislation four principles in developing the specific legislation, say No. 1, this is a limited government, should be, and we need to get it back to there.

I would note parenthetically to you that now the Supreme Court is starting to reengage in that argument with its recent Lopez decision where it said that the Commerce clause doesn't mean you can be into everything, and there are limits to the extent the Federal Government can be in, and that is the first time in 60 years they have engaged a limitation on the Commerce clause.

Our four principles in developing the legislation are these: Localize, privatize, consolidate, and eliminate. We sought in all of these programs when we looked at doing away with the Cabinet-level agency and what would we do with the functions to first what

could we localize, what could we send back to State and local units of government and be closer to the people?

A second part, privatize, what is it that we could privatize? Are there functions that the private sector could do better and more efficient than we can in the public sector, and clearly there are.

Consolidation, there is a number of redundancies built into the Federal Government system, and I could cite to you some examples, but in the essence of time I will not right now, and eliminate, what functions are there whose time has come and gone who were successful programs, but it is time we move on, whether for budgetary purposes or simply for the role of a limited government?

We are reviving these Federalist principles, stating that a number of these agencies, particularly ones that we are bringing forward here in the next couple of weeks, are recent creations of the Federal Government since the mid-1960's. They are centralized bureaucratic functions that are seeking to have a centralized approach to problem solving, and we would submit to you and to this committee that we have proven that in a large diverse Nation like the United States of America, centralized bureaucratic top-down command and control functions do not solve problems. They in the end of the day cause more problems than they solve, and I think we have proven that in a number of these sectors, spending trillions of dollars to prove that point.

This is an age-old discussion we are involved with. I have cited in my testimony quotes from the Founding Fathers worried about too much power in the centralized government. They worried then. I believe that the Nation today is worried now about too much centralized command and control out of Washington, and that is what they have sent us here to change.

It has been very interesting to me the response that we have received since that 2 months ago when we said, let's look at these, eliminating these four agencies. The biggest criticism that I have received has been why only four? What about other agencies? What about other departments that are running our lives across this country, and we think we could do a better job ourselves?

We have gotten a very encouraging engagement from the American people in this question that is over 200 years old, and we think it is time we got back to basics, created a smaller, more efficient, more focused Federal Government that does its core missions and does them very well.

With that, I probably used the time. I would hand it off to the other two.

[The prepared statement of Hon. Sam Brownback follows:]

PREPARED STATEMENT OF HON. SAM BROWNBACK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

Chairman Horn and members of the Subcommittee, thank you for inviting me to testify before you today on the subject of "Consolidating and Restructuring the Executive Branch." A few months ago, several of my Freshmen colleagues and I proposed eliminating four federal cabinet bureaucracies: the Departments of Commerce, Education, Energy and Housing and Urban Development. At that time, we announced the creation of four task forces to develop legislation to serve these goals. We will announce the task force recommendations in the coming weeks. Since then, the elimination of three of these four Departments (Education, Energy and Commerce) have been included in the FY 1996 House Budget Resolution, which will be considered on the floor of the House of Representatives this Thursday.

Today, I am joined with Congressmen Todd Tiahrt, a fellow Kansan, and Dick Chrysler, from Michigan, who chaired the energy and commerce task forces, respectively. They will provide the rationale for eliminating these costly and meddlesome bureaucracies, while I will discuss the overall thrust and reasoning of our efforts.

As you know, we are newly elected members of Congress who were sent here as part of the greatest electoral change in forty years. I believed then, as I do now, that the country is demanding a revolutionary restructuring of the federal government. There is a belief among the American people that we have created a tremendous gulf between the federal government that we studied in our elementary civics classes and the one which we face today.

According to James Madison, the chief architect of the Constitution, "The powers delegated by the [proposed] Constitution to the federal government are few and defined." However, contrary to this vision, agencies and regulations have proliferated, causing the conflict between the federal government and the American people to reach a boiling point. These four cabinet departments are just a few examples of a federal system that has grown separate from its constitutional intent. Our goal is to engage Congress and the country in a Constitutional debate over our government's proper role for the 21st century.

Two key factors drive our efforts. First, we are broke. Our national debt will reach $5 billion this year that is $76,000 for a family of four. The path of the federal budget, proposed by the Clinton Administration, would run budget deficits as far as the eye can see, piling more and more debt on our children's future. For this reason alone, the size and scope of the federal government must be scaled back. Second, and most importantly, even if the federal debt were in surplus, we would pursue these reforms. We believe these bureaucracies take power from the states, stifle individual innovation, and inhibit private sector development.

While Congressmen Tiahrt and Chrysler will address the energy and commerce bureaucracies, I will briefly outline our thoughts on the departments of Education and HUD.

Since the creation of the Department of Education in 1979, one would have expected improved test scores along with an improved educational system. If improved educational achievement and higher test scores resulted from federal control, then billions in finding for the Department of Education would be justified. But this is not the case. Since 1979, academic achievement among America's young people, as reflected in test scores and other surveys, has stagnated or declined. American's young rank among the bottom in the industrialized world in math and science and near the bottom in English and history. While the federal government supplies a mere 6 cents for every dollar we spend on our children's education, Washington replaces on-sight knowledge of teachers and parents with the rules and regulations of distant education bureaucrats.

We believe that education in America is the constitutional responsibility of the states, the social responsibility of communities and the moral responsibility of families. Our goal is to return the important education decisions to families communities and states where they belong.

The Department of Housing and Urban Development began with great fanfare and hope in 1965. It was on the front lines of Lyndon Johnson's War on Poverty, charged with renewing our cites, encouraging job creation and providing decent, safe shelter for low-income Americans. Since then, Americans have spent over $5 trillion dollars at all levels of government on poverty programs. Yet, by virtually any measure, poverty, crime, drug abuse and violence are far worse today than when HUD was founded. We need an entirely new approach.

Our goal is to apply the power of the individual, families, communities, free enterprise and the principle of federalism to the problem of property in America. To that end, we should sell public housing to the housing to expand homeownership in poor neighborhoods. We are working to eliminate the bureaucratic chokehold and "cookie-cutter mandates" to housing assistance through vouchers and local remedies which give the poor more and better choices in finding housing. Our goal is to devolve control to local government communities and private organizations which have proven far more effective in developing innovation solutions.

Developing Legislation

From the outset, we have used the following four basic rules to guide us through this legislative process.

Localize: We are evaluating the proper federal role in each of these bureaucracies to determine whether their functions can be more efficiently performed by states, local governments or, more importantly, the family.

Privatize: We are analyzing federal services to determine which can be better performed through the private sector.

Consolidate: Duplication among agencies runs rampant. We are determining which necessary federal functions can be transferred to agencies that already have the ability and capacity to carry out these functions.

Eliminate: We are evaluating whether each federal program plays an essential role of the federal government. Those programs which do not pass this test will be eliminated.

Ever since we began this project to eliminate these four federal bureaucracies, our greatest criticism has been, "Why just four?, what about the Labor Department, or the Department of Transportation?" In response, I believe these four principles should be applied to all levels of the federal government. In addition to the three cabinet agencies, the FY 1996 House Budget Resolution recommends eliminating 284 programs, 13 agencies and 69 commissions. This is a good start, but it by no means suggests the remaining programs should escape this essential scrutiny.

Reviving Federalist Principles

This exercise is not simply an attempt to come up with enough savings to balance the budget. It is an attempt to answer one fundamental question. A question that is over 200 years old and still very relevant today. That is: What is the proper role of the federal government?

So far, the 20th century has largely been an experiment in what all the federal government can do, not what it should do. The enthusiasm for central solutions to our nation's problems has evolved significantly. Two World Wars and a Great Depression have placed great tests upon the Constitutional meaning of a "limited government." America united twice to defeat a world-wide foreign military threat. FDR's Great Society used a similar centralized approach to rally the nation around a great domestic threat. LBJ's War on Poverty asserted that the federal government could and should do more. Meanwhile, predominant economists and political scientists applauded.

Since the beginning of this period, at the beginning of this century, government spending at the federal level accounted for less than 3 percent of national income. By 1950, it had risen to 14 percent.

- Today, government spending at the federal level accounts for more than 23 percent of national income.
- Today, federal regulations impose costs of more than $600 billion each year.
- Today, the typical American family pays over 40 percent of their income in taxes—that's more than they spend on food, shelter and clothing combined!
- Today, the American taxpayer must work until May 6th to pay off her taxes and begin working for herself.
- Today, government at all levels spends $24,000 for every household in America.
- Today, the government is larger and grows faster than the manufacturing, agriculture, computer and health care sectors.
- Today, there are more people working for the government than there are working in all our manufacturing industries combined.

Our founding fathers envisioned a federal government that would "do no harm." In 1821, Thomas Jefferson warned against a centralized federal government, "When all government, domestic and foreign, in little as in great things, shall be drawn to Washington as the center of all power, it will render powerless the checks provided of one government on another, and will become as venal and oppressive as the government from which we separated."

Our nation is at a point in history where we have more federal government than any of us could ever have wanted. We must now reassert those principles of federalism which gave our forefathers sanctuary from a powerful centralized government that stifled the genius of the individual.

These proposals are not short sighted. They are not simple responses to our complex fiscal problems. Indeed, these proposals would be worth pursuing even if our budget were in balance. These proposals, which will be released in detail in the coming weeks, offer a long-term solution to what ails our country. Our goal is to begin a process whereby we question and re-examine the proper role of the federal government as a "limited government."

Today's problems do not stem from the fact that federal expenditures grew at a faster pace than federal revenues. That is a mere symptom. The real problem lies within the way our federal system governs. If we reduce spending and achieve fiscal balance without addressing the systematic excesses throughout our federal government, then we have failed. Constitutionally illegitimate federal agencies, programs and regulations that are trimmed back will grow again. This will continue to stifle local innovation and accountability. It implies that Washington knows best and is taking charge.

I am encouraged by the eager interest of people across America to engage in this discussion of the proper role of the federal government. The Supreme Court recently stated, in the Lopez case (1995), that once again the federal government is a "limited government." Our efforts are in line with this strong movement that draws its benefits from the great founders of our nation.

Mr. Chairman, members of the Committee, thank you for giving me this opportunity to testify. I would be happy to answer any questions you may have.

Mr. HORN. Will you be able to join us after the vote?

Mr. BROWNBACK. Yes, I will, Mr. Chairman.

Mr. HORN. Why don't we recess now for 12 minutes?

[Brief Recess.]

Mr. HORN. We welcome you, Mr. Robert Mosbacher, former Secretary of Commerce and CEO of the Mosbacher Energy Co. in Houston, TX.

If you would like to give us a summary of your statement, and we will put it in the record. I will give you the oath, which is a tradition on this committee. If you will stand and raise your right hand.

[Witness sworn.]

Mr. HORN. The witness affirmed. All right, please proceed.

STATEMENT OF ROBERT A. MOSBACHER, FORMER SECRETARY OF COMMERCE, MOSBACHER ENERGY CO.

Mr. MOSBACHER. Mr. Chairman, members of the committee, it is a pleasure to join you today, and I have summarized my comments from my oral testimony and ask that my full remarks be submitted for the record.

Mr. HORN. Without objection, so ordered.

Mr. MOSBACHER. Being here provides me with an opportunity to renew some valued friendships and participate in an important debate that promises to shape the future of government in Washington.

Mr. Chairman, you are going to hear many voices on the issue being considered by this committee. I am sure your witness list is long and distinguished. I know it is distinguished. I would like to tell you, though, that no more eloquent testimony can be delivered than that which was delivered this past November when the American people called for radical reform in the working of their government. Your constituents want a more efficient Federal Government, they want a less extensive Federal Government, and they want a smaller Federal Government.

The revolution the people endorsed has brought a response. The reaction in Congress has been both swift and refreshing. One of the most refreshing and innovative results has been the development of a proposal to examine the Departments of Commerce, Housing and Urban Development, Education, and Energy.

When I first considered what was being proposed, I recalled all too vividly memories of struggling to master the functions of more than 100 programs, overseeing the Department of Commerce at a cost to the American taxpayer at that time of about $3 billion and in the next fiscal budget of $4.25 billion. What we see is about 60 percent of that budget and a more than 35,000 person work force is appropriated to programs that have no relationship to the mission of the agency, which is trade.

I also recall that Commerce shares its broad mission with at least 71 other Federal departments, agencies, and offices. In true understatement, the General Accounting Office has described this situation as, "a complex web of divided authorities."

I believe, therefore, that many of the soundest arguments in favor of the plan to localize, privatize, consolidate, or eliminate the functions of the four Federal agencies being discussed are epitomized at the Department of Commerce. Mr. Chairman, members of the committee, I would like to share some of my thoughts on the subject with you.

I mentioned my struggles with the unwieldy size of the Department. Let me try to put this in perspective. Every agency within Commerce has its own office with one or more, in many cases more, staff members responsible for congressional affairs, budget issues, public affairs, policy issues, and personnel. The Office of the Secretary also has separate entities for each of these functions, and they provide coverage of departmental activities on every level. This oversight is then further complicated and duplicated by the review functions of the Office of Management and Budget and Commerce.

I have been in business for over 40 years and chairman and CEO of Mosbacher Co.'s, but it doesn't take a CEO to recognize that a privately owned enterprise would be out of business very quickly if it operated as wastefully and as inefficiently as our Department of Commerce. I am sure I am not the only one who recognizes the sad irony of that statement.

As you consider the prospects for the Department of Commerce, and those of the other three agencies, you will study the nature of the various programs and determine how vital these activities are to the American people. In this regard, it is telling that during the period I served as Secretary of Commerce many agencies in the Department lacked the current congressional authorization. Their undervaluing the programs in this way indicates Congress should indeed take a close look at many of the programs at Commerce.

In my mind, this committee should ask four questions when making an assessment of what Federal activities should be eliminated in the Department and in other agencies: First, can the private sector do the same job more effectively or at less cost? Second, can local and State governments do the job with fewer layers of bureaucracy? Third, if it is a legitimate activity for the Federal Government, is there another Federal agency with identical or similar activity or mandate that should do it instead? Fourth, is the activity critical? By that I mean vital to the Nation's economic or military security.

Let me give you an example. I believe a strong case can be made for privatizing or outsourcing the National Weather Service, a program run by the National Oceanic and Atmospheric Administration within Commerce. This program is in the midst of a modernization effort. The initial cost estimate was nearly $2 billion, and now it is over $4.6 billion. The projected completion date has slipped from 1994 to 1998. In my view, privatization is the most efficient way to move forward and preserve the viable functions of the National Weather Service, thereby allowing the market to decide how to spend the limited funds most productively.

A moment ago I pointed out that Commerce currently shares its mission with scores of other Federal agencies, adding costly and unnecessary administrative layers to government. Nowhere is this confusion of responsibilities more costly than in the field of international trade, where the Department of Commerce which is charged first with maintaining a level playing field for American exporters. This is a critical function in the emerging global marketplace, especially when one considers that trade generated 60 percent of our economic growth in the last 5 years.

The world we compete in today is boiling with growth and opportunity. Foreign markets should be ripe for American exports, but we will not be at our competitive best as long as the development of U.S. trade policy is scattered across the bureaucratic landscape in Washington. Along with Commerce, the Office of the U.S. Trade Representative as well as the Departments of State and Treasury have a role in the trade arena.

Unfortunately, we cannot remove the U.S. Government from international trade promotion. At least not until our competitor countries around the world stop trying to tilt the playing field for the benefit of their own national companies. Until that day, we must use the U.S. Government's clout to keep the playing field level.

It is extremely difficult to develop a coherent trade policy and maintain a united front in international negotiations under these circumstances. I believe a studied review of the Department of Commerce will show that consolidation of the Department's key international trade functions with those of the USTR and other agencies into a smaller, more effective entity is the way to go. Such a consolidation is clearly in the Nation's vital economic interests.

Privatization and consolidation of functions at Commerce offer an avenue to retain agencies and programs that benefit the American taxpayer. There are, however, many other agencies and programs within Commerce where all but a few useful elements should be totally eliminated. Some are fraught with waste and abuse. Others have projects that can just fairly be labeled pork. Among those I would recommend for elimination are U.S. Travel and Tourism Administration, Economic Development Administration, the EDA, National Telecommunications and Information Administration, as well as the National Oceanic and Atmospheric Administration, which takes almost 60 percent of the entire Commerce budget.

Mr. HORN. You are going to have to conclude your statement if we are going to have any time for questions before you leave. I hate to interrupt you, but I let you go about 5 minutes over anyhow.

[The prepared statement of Mr. Mosbacher follows:]

PREPARED STATEMENT OF ROBERT A. MOSBACHER, FORMER SECRETARY OF COMMERCE, MOSBACHER ENERGY CO.

Mr. Chairman, members of the committee, it is a pleasure to join you today. I have summarized my comments for my oral testimony and ask that my full remarks be submitted for the record. [At this point the chairman may say "so ordered"] Being here provides me with an opportunity to renew valued friendships and to participate in an important debate that promises to shape the future of government in Washington.

Mr. Chairman, you are going to hear many voices on the issue being considered by this committee. I am sure your witness list is long and distinguished. But you will not hear more compelling or eloquent testimony than that delivered this past

November when the American people called for radical reform in the working of their government. Your constituents want a more efficient Federal Government. They want a less expensive Federal Government. They want a smaller Federal Government.

And the revolution the people endorsed has brought a response. The reaction in Congress has been both swift and refreshing. One of the most refreshing and innovative results has been the development of a proposal to examine the Departments of Commerce, Housing and Urban Development, Education, and Energy—program by program, budget line by budget line—with the intent to localize, privatize, consolidate or eliminate the functions of these agencies.

When I first considered what was being proposed I called up my all too vivid memories of struggling to master the functions of the more than 100 programs overseen by the Department of Commerce at a cost to the American taxpayer of almost $4 billion. I recalled that more than 60 percent of the department's budget and 37 percent of its 35,000 person workforce is appropriated to programs that have no relation to the mission of the agency which is to "enhance economic opportunity for all Americans."

I also recalled that Commerce shares its broad mission with at least 71 other Federal departments, agencies and offices. In true understatement, the General Accounting Office has described this situation as a ". . . complex web of divided authorities . . . ."

I believe, therefore, that many of the soundest arguments in favor of the plan to localize, privatize, consolidate or eliminate the functions of the four Federal agencies being discussed can be found at the Department of Commerce. Mr. Chairman, members of the committee, I would like to share some of my thoughts on this subject with you.

I mentioned my struggles with the unwieldy size of the department. Let me try to put this in perspective. Every agency within Commerce has its own office with one or more staff members responsible for congressional affairs, budget issues public affairs, policy issues, and personnel. The offices of the secretary also has separate entities for each of these functions, and they provide coverage of departmental activities on every level. This oversight is then further duplicated by the review functions of the Office of Management and Budget, and Congress.

I was in business for 40 years as chairman and CEO of Mosbacher companies. But it does not take a former CEO to recognize that a privately owned enterprise would be out of business very quickly if it operated as wastefully and inefficiently as the Department of Commerce. And I am sure I am not the only one who recognizes the sad irony of that statement.

As you consider the prospects for the Department of Commerce—and those of the other three agencies—you will study the nature of the various programs and determine how vital these activities are to the American people. In this regard, it is telling that during the period I served as Secretary of Commerce, many agencies in the department lacked a current congressional authorization. Undervaluing the programs in this way indicates Congress should indeed take a close look at many of the programs at Commerce.

In my mind, this committee should ask four questions when making an assessment of what Federal activities should be eliminated in the Commerce Department and other agencies. First, can the private sector do the same job more effectively or at less cost? Second, can local and state governments do the job with fewer layers of bureaucracy? Third, if it is a legitimate activity for the Federal Government, is there another Federal agency with an identical or similar activity or mandate that should do it instead? Fourth, is this activity critical—and by that I mean vital—to the Nation's economic or military security?

Let me give you an example. I believe a strong case can be made for privatizing or outsourcing the national weather service, a program run by the National Oceanic and Atmospheric Administration (NOAA) within Commerce. This program is in the midst of a modernization effort. The initial cost estimate of nearly $2 billion has more than doubled to $4.6 billion, and the projected completion date has slipped from 1994 to 1998. In my view, privatization is the most efficient way to move forward and preserve the viable functions of the national weather service, thereby allowing the market to decide how to spend most productively.

A moment ago I pointed out that Commerce currently shares its mission with scores of other Federal agencies costly and unnecessary administrative layers to government. Nowhere is this confusion of responsibilities more costly to out Nation than in the field of international trade, where the Department of Commerce is charged with maintaining a level playing field for American exporters. This is a critical function in the emerging global marketplace, especially when one considers that trade generated 60 percent of U.S. economic growth these past five years.

The world we compete in today is boiling with growth and opportunity. Foreign markets should be ripe for American exports, but we will not be at our competitive best as long as the development of U.S. trade policy is scattered across the bureaucratic landscape in Washington. Along with Commerce, the Office of the United States Trade Representative (USTR) as well as the Departments of State and Treasury have a role in the trade arena.

Unfortunately, we cannot remove the U.S. Government from international trade promotion. At least until our competitor countries around the world stop trying to tilt the playing field for the benefit of their own national companies. Until that day, we must use the U.S. Government's clout to keep the playing field level.

It is extremely difficult to develop a coherent trade policy and maintain a united front in international negotiations under these circumstances. I believe a studied review of the Department of Commerce will show that consolidation of the department's key international trade functions with those of the USTR and other agencies into a smaller, more effective entity is the way to go. Such a consolidation is clearly in the Nation's vital economic interests.

Privatization and consolidation of functions at Commerce offer an avenue to retain agencies and programs that benefit the American taxpayer. There are, however, many other agencies and programs within Commerce where all put a few useful elements should be eliminated. Some are fraught with waste and abuse, others house projects that can fairly be labeled "pork." Among those I would recommend for elimination are:

- The U.S. Travel and Tourism Administration (USTTA);
- The Economic Development Administration (EDA);
- The National Telecommunications and Information Administration (NTIA); and
- The National Oceanic and Atmospheric Administration (NOAA)

Mr. Chairman, members of the committee, I have offered only a summary review of areas of weakness at the Department of Commerce. These are examples of serious, debilitating problems that run throughout the department. When put under a microscope I am convinced that programs at commerce will prove ripe for privatization, consolidation, and localization, and the agency a prim candidate for elimination.

Let me say in closing that the exercise on which you have embarked is not only about money. Perhaps most importantly, it is about empowerment; it is about putting the American people back in charge of their destiny. There was no blueprint drawn up in Washington that made this the most prosperous and civilized Nation in history. Federal directives did not create the most democratic and progressive government known to man. The American people did that and we must ensure that the same opportunities exist for our children and grandchildren. The best way to do that is to let Americans get on with their lives unencumbered by an overbearing smothering Federal Government.

Sadly, most of the Department of Commerce embodies government incursion that is both unnecessary and far too expensive to continue.

That is the conclusion of my remarks Mr. Chairman. I appreciate the opportunity to address this committee and I will be happy to answer your questions. Thank you.

Mr. HORN. Let me ask you a few questions here. Traditionally, the Department of Commerce has represented business in the administration, and has been the President's primary link to the Fortune 500. Now, small business, as you know, was never incorporated into the Department of Commerce. I am not sure on the history of that. Perhaps you are. But I wonder, if Commerce is to be abolished, how would the American business community get represented to the President?

Mr. MOSBACHER. First, Mr. Chairman, small business, and I am sure—I am not sure, but I assume it is treated the same today but during our administration was represented in the Department of Commerce, and continues to be around the world, but whether it is small business or large business, it doesn't need representation within the United States.

Within the USA the best thing the government can do is stay totally out of the picture. Around the world, in other parts of the world it is necessary to have the Department or a Department of

International Trade that represents U.S. business and makes the playing field level for U.S. business with companies from other countries. Because these other nations push very hard to get their companies in there first, and therefore I recommend we keep that part of Commerce, but that is less than 5 percent of the total budget.

Mr. HORN. On what issues did you spend most of your time on as Secretary? As you look back on the Commerce, what was the issue that really consumed a lot of your time?

Mr. MOSBACHER. Well, international trade was the, I felt was my No. 1 priority, and I spent more time there but, frankly, there is the issue of the Kemp Ridley turtle versus the shrimpers and other things that I had no idea when I went into this job would take a part of it, and it has.

Mr. HORN. I can empathize with you. Do you think we ought to have a Cabinet department that represents international trade and related activities? How do you feel about that?

Mr. MOSBACHER. Yes, I think really the only and most essential part of the Department is just that, and it should be combined with USTR and those parts of State and Defense and others that also deal in international trade.

Mr. HORN. Right now, you have a tug-of-war on any commercial sale that might have defense implications between the Secretary of Defense, the Secretary of Commerce, the USTR, the White House, and the Department of State. They all mix it up. Do you think a Cabinet officer-headed department would be able to resolve those quarrels? In other words, can a Cabinet colleague give orders or persuade, some of his colleagues to get something accomplished? Or does it take a White House, "anonymous," assistant, which is sort of an oxymoron, to do this coordination on behalf of the President?

Mr. MOSBACHER. Well, Mr. Chairman, having been here almost 4 years I would not presume to say that it will all go smoothly, but I think a Department of Commerce or Department of Trade which encompasses the leadership in this area can accomplish almost all these things. Occasionally there will have to be a White House-moderated meeting between perhaps Commerce and Defense, something like that, but most of the time the one department can do it, and in my view should do it, and that is what is best for U.S. business and what creates the jobs for international sales around the world.

Mr. HORN. So you would eliminate the U.S. Trade Representative as a separate entity working with the Executive Office of the President and put that function in whatever is left of Commerce?

Mr. MOSBACHER. Yes, I would.

Mr. HORN. You mentioned on page 2 and 3 of your testimony that every agency within Commerce has its own congressional affairs office, budget office, public affairs office, policy office, personnel office, and other service arms.

Could you have cut out those offices by an Executive order or were they written into law? Could you just have denied them a budget and would they have withered away at the end of the fiscal year?

Mr. MOSBACHER. I wanted to do that, and each one, as you well know, Mr. Chairman, and many of you know, had its own constitu-

ency within the Congress, and each one would complain to their group, who would then come and say, you can't cut that one area because that is the one we are most interested in, whether it was EDA or NOAA or something else. Let me just say, to me this is a unique opportunity that you have today because a clean sweep can be made.

Mr. HORN. During the time you were Secretary, was there any attempt to reorganize Commerce or any other agency by the administration? Did they even think in these terms?

Mr. MOSBACHER. No. The administration did not, and, frankly, I chose not to try because I had heard that a previous Secretary of Commerce, who was a very, very able man named Mac Baldrige, had tried, and as we say in Texas had blunted his pick trying to do that.

Mr. HORN. What advantages do you see privatization providing, say, on the Weather Service primarily and sale of publications information? How do you see that?

Mr. MOSBACHER. I think all of that can be bid out, outsourced, privatized. In some cases you may need enough government control, for instance, in the economic administration where you put out the figures for the country, but most of the work should not be done by the government. It can be and has been done by private sources with just a government check.

Mr. HORN. I yield 6 minutes to the gentlewoman from New York, Mrs. Maloney.

Mrs. MALONEY. Thank you very much, Mr. Chairman. I would like to submit for the record of the hearing a letter which ranking minority member, Mrs. Collins received today from the National Association of Manufacturers, NAM Vice President for Trade and Technology Policy, Mr. Howard Lewis.

In this letter, Mr. Lewis expresses concern about proposals to eliminate the Department of Commerce. He goes on to say that although they could not testify at today's hearing, NAM believes additional hearings are needed.

Mr. Lewis states, "The issues involved are too important to be decided in haste and without a full discussion of the implications of the changes being contemplated."

Mr. Chairman, I strongly believe we should hear the views of U.S. industry, which must rely on the export promotion activity and the laws administered by the Commerce Department to remedy unfair trade practices. The Commerce Department has been a strong advocate for U.S. business and industry in foreign markets, jobs of hundreds of thousands of American workers now depend on exports, and we must be very careful not to let reorganization proposals undermine the global competitiveness of American industry.

May I submit the letter for the record?

Mr. HORN. Without objection, it will be inserted in the record.

[The information referred to follows:]

May 16, 1995

The Honorable Cardiss Collins
2308 Rayburn Building
U.S. House of Representatives
Washington, D.C. 25515

DEAR REPRESENTATIVE COLLINS:

Later today the Committee on Government Reform and Oversight will hold hearings on the Budget Committee's proposal to eliminate the Department of Commerce and to make other significant changes in the organization of the Executive Branch. Unfortunately, the NAM had to decline when your staff generously suggested to us that we might testify at today's hearing. Let me assure you as strongly as I can that the NAM's decision does not indicate a lack of interest in the issues.

To the contrary, we are in no doubt that the structure and effectiveness of government can: have a profound effect on U.S. business, especially those businesses involved in international competition, and we are concerned by some of the proposals we have seen. We urge you and your colleagues to hold additional hearings on the pending proposals. The issues involved are too important to be decided in haste and without a full discussion of the implications of the changes being contemplated. Indeed, we here at the NAM are still in the process of learning how various elements of our membership would be affected by different organizational structures.

Even at this juncture, however, we can make the following observations:

- The NAM strongly supports the current Congressional efforts to achieve a balanced budget in seven years. That does not mean, however, that every budget cutting proposal will be endorsed by the NAM. When proposals are wrong or perhaps penny wise and pound foolish, we will say so.
- It is important that the core elements of the International Trade Administration (now in the Commerce Department) remain together and under the leadership of a Cabinet rank official. When major decisions are being made—whether about trade embargoes, expert support allocations, or participation in new trading arrangements—it is essential that U.S. manufacturing interests be represented.
- We find it ironic that the Department of Agriculture is sacrosanct even though well under 2 percent of the work force is engaged in agriculture. Roughly 16 percent is directly involved in producing manufactured goods.
- In today's highly competitive, global economy, it is essential that critical agencies like the Export Import Bank remain strong and effective.

I hope these comments are helpful and look forward to working with you on these issues in the weeks ahead.

Sincerely,

HOWARD LEWIS III
Vice President, Trade and Technology Policy National Association of Manufacturers

Mrs. MALONEY. Thank you.

Mr. Mosbacher, I noted you were here earlier when Representative Walker testified on his proposal for a Department of Science. Right now, we are downscaling, we are not creating new departments. In fact, the Budget Committee specifically rejected the idea of a new Department of Science. If we delete the Department of Commerce, there aren't any proposals now before us to create a new Department of Trade and Technology. Don't you think that might be hard on business that has relied on Commerce for their problems in trade?

Mr. MOSBACHER. Well, I said that the International Trade part of Commerce should remain. I agree with that part of the letter from NAM, and I agree with you that it should. But what I do say is, that is only about 5 percent or less; it is actually closer to 4 percent of the total budget. So we need to keep that, whether it is in Commerce or the new Trade Department, and that does not encompass the rest of the budget.

Mrs. MALONEY. The lumber industry, the steel industry, textiles and many others have brought antidumping and countervailing duty cases against foreign firms and countries have often said that the Commerce Department is the only place where these trade remedy cases get a fair hearing.

The International Trade Commission is often cited as being nonresponsive to the interests of U.S. industry. It is my understanding that the Budget Committee's report, which was filed today, calls for

the Commerce Department's responsibilities for antidumping and countervailing duty cases to be transferred to the ITC.

Does the ITC taking over total responsibility for antidumping and countervailing duty cases bother you as much as it bothers U.S. industries that rely on these laws to counter unfair trade practices?

Mr. MOSBACHER. Well, the ITC should be part of revamping the government. I don't disagree with that, but it is also an example of where you have duplication. So either the ITC is not doing the responsible job they should or—in which case, they should be viewed possibly for elimination, or they should do the job and that part of Commerce should be eliminated. It is a case of, again, two agencies working on the same problem.

Mr. BROWNBACK. Ms. Maloney, may I respond to that briefly for just a second? Do you mind? I used to work in the trade field myself, previously.

We have got 17 agencies doing trade promotion throughout the Federal Government, and so it is an area that we can have—I might also point out, you have got a letter from NAM. We have worked with the U.S. Chamber of Commerce whom one would think would be the lead supporter of keeping the Department of Commerce, who is not, and is supporting eliminating the Department of Commerce.

Mrs. MALONEY. Well, when you were Secretary, Mr. Mosbacher, you testified about the mission of the Commerce Department before the Appropriations Committee, "Our mission will be to foster, promote and develop the foreign and domestic commerce of the United States. At this moment in our history, few tasks of government could be more timely or more important to the future well-being of our citizens."

Why has your view about the importance of the role of Commerce changed so dramatically?

Mr. MOSBACHER. No, I think international trade and commerce, and domestic also, but international trade and commerce is of utmost importance. I said that 60 percent of the growth of the economy has come from foreign trade over the last 5 years, so I agree that it is extremely important, and I want to keep that part. But——

Mrs. MALONEY. So you are calling it a new department.

Mr. MOSBACHER. I don't care whether you do it in a revamped Department of Commerce, or a new department, but if we obfuscate this by saying, let's just take a few things out of Commerce, we are going to end up accomplishing nothing.

I am saying, whether you have it deceased in its present form, or call it Commerce or call it Trade, it is the same thing.

Mrs. MALONEY. I yield back the balance of my time.

Mr. HORN. Thank you very much. We will try to schedule representatives of the National Association of Manufacturers and others if we pursue the Commerce aspect.

The first witness this afternoon was Robert Walker, chairman of the Science Committee, and he suggested some of the scientific functions in Commerce might well be moved to a new Department of Science, along with the old Bureau of Standards.

Mr. MOSBACHER. NIST, yes.

Mr. HORN. Of course, the National Oceanic and Atmospheric Administration makes up most of the budget of the Department of Commerce. You mentioned some of the areas in here, such as the Economic Development Administration, that ought to be abolished. I just wonder, what do you think about some of those going to a Department of Science and having Commerce just focus on international trade?

Mr. MOSBACHER. I think it would be a bad mistake to just move the boxes around. I think we have to eliminate a lot of these boxes.

For instance, really the only part of science that should be left to government is that far-out generic-type studying that cannot have any immediate or even middle-term economic benefits. So when you eliminate those two aspects of scientific research, you don't need to spend the kind of money we have been talking about, certainly not in Commerce.

Mr. HORN. I notice, on EDA, you said the office has a budget totaling more than $400 million and many of its projects can be fairly labeled "pork." You also say it is an old fashioned grant agency with a history of fraud, waste and misuse of funds.

Did you have an Inspector General working for you during your period as Secretary?

Mr. MOSBACHER. Yes, and I—if he is still there, I recommend you call him in to talk about some of these things.

We were subjected to tremendous pressure from various Members, if you don't mind me saying, of the Congress and others to put certain schools or other services in their particular district. Now, they may have been good services. I am not saying those were fraudulent. What I am saying is that they should have been viewed first by these same criteria I am talking about—privatized, local government and then other agencies are already stamped with this.

Mr. HORN. I am only familiar with one grant of the Economic Development Administration and it occurred approximately 15 years before I came to Congress. That was in the 1970's when we were trying to rebuild Long Beach, CA. A few million dollars from EDA was leveraged into $2 billion—that is with a "b" in dollars—of private money. So I saw it as a success story.

A number of administrations have tried to kill off EDA. Members of Congress on a bipartisan basis have tried to save EDA, familiar with the fact that it worked. So I guess if I saw fraud and waste and abuse, misuse of funds, I guess I would call the U.S. Attorney and say indict. Otherwise, I wonder, why wasn't something done about the fraud, the waste and the misuse of funds?

Isn't the Inspector General supposed to know something about that?

Mr. MOSBACHER. Well, why don't you—I would suggest that——

Mr. HORN. We are having him up. This is the oversight committee for Inspectors Generals and Chief Financial Officers; they will all get their chance.

Mr. MOSBACHER. Let me just add, Mr. Chairman, that whatever very excellent results you had in Long Beach, don't you think there is a chance it could have been done by State and local government, or by agencies other than Commerce and EDA?

Mr. HORN. All I know is, it wasn't done, the city was going down the drain. It is now one of the major cities of the State, and we took a few million dollars and made something out of it with matches, more than enough in the private sector. That stimulus has helped and there have been success stories.

Well, are there any other questions?

Mrs. MALONEY. Just one last question.

How much money do you believe you can save by the reorganization plan that you are proposing, having basically a Department of Trade and contracting out the National Oceanic and Atmospheric Administration? What do you have, a $4 billion budget now; 60 percent is the NOAA? So how much—under the reorganization plan that you are proposing, how much do you think the government would save?

Mr. MOSBACHER. Well, assuming the government is willing to either eliminate or privatize most of this, the $4.25 billion that is scheduled for fiscal year 1996, and assuming you put the rest of it in a new trade organization, it would be somewhere close to three-quarters of the total, which would be over $3 billion.

Now, that is not going to be able to be done the first year, but certainly over the years ahead.

Mrs. MALONEY. Thank you very much.

Mr. CHRYSLER. The answer is, $2.338 billion could be saved in NOAA over 5 years.

Mr. HORN. Well, we thank you, Secretary Mosbacher. We appreciate you coming here, and I think you are in time for that 4 o'clock appointment.

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

Mr. HORN. And I thank the three Members of Congress for waiving the time. We appreciate your courtesy, and now we will pick up where we stopped. I believe Mr. Brownback had finished his statement.

We will now ask Representative Chrysler of Michigan, who is coordinator of the task force on the Commerce Department, to please give your statement.

STATEMENT OF HON. DICK CHRYSLER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. CHRYSLER. Thank you, Mr. Chairman. I would like to thank you and the members of the subcommittee for inviting me here today, to address the issue concerning the plans to dismantle the U.S. Department of Commerce. Of course, with my background, with being in business for 25 years and creating jobs and putting people to work, doing business in 52 countries, and I can say, in all that period of time, never calling the Department of Commerce one time for anything, I think that the elections of 1994 provided this Congress with a clear—or with a new class of legislators bent on reducing the size, scope and cost of our Federal Government and making it more user friendly.

As a group of reform-minded freshmen, we felt it was our obligation to follow through on what we had promised to the American people. We want to create a government of accountability and responsibility to give all Americans an opportunity.

Last February, the freshmen formed four task forces and announced our intentions to dismantle four Cabinet-level agencies. Serving as the chairman of the task force on dismantling the Department of Commerce has provided me with an invaluable insight into the magnitude to which our Federal Government has extended itself.

Dismantling a Federal department has not been done before. Our analysis has been practical, clear, and constructive. If a program is worthwhile, we have supported it. If it is duplicative, we have consolidated it. If it is wasteful, we have trimmed it. And above all, if it isn't necessary, we have eliminated it.

In pursuing this goal, some have considered us naive and scoffed at the notion of eliminating an entire Cabinet-level agency. Well, today we not only have plans to dismantle one agency; we have plans to dismantle four. This downsizing of our Federal Government will be a true victory for the American people.

Created in 1903, the Department of Commerce today operates with an annual budget of roughly $4.2 billion and a work force of nearly 36,000 employees. After forming a working group of members and outside experts to study the validity of the Department's mission, purpose and effectiveness, we determined that it should be dismantled. For whatever intentions, good or bad, the Department's existence cannot justify the billions of taxpayers' dollars that are poured into the agency each year.

We sought to identify the actual benefits the Department of Commerce provides in relation to its purported mission and costs. The results were less than satisfactory. What we found was exactly what has been echoed throughout our country about Washington bureaucracies: The Department of Commerce is an out-of-touch, out-of-date, self-perpetuating entity that is geared more toward politics and preserving itself than toward serving the American people.

According to the Department's own Inspector General, the agency has evolved into a loose collection of more than 100 programs serving only 1,000 customers in a country of 260 million people. The General Accounting Office goes further, reporting that Commerce faces the most complex web of divided authorities, sharing its mission with at least 71 Federal departments, agencies and offices.

For example, the Department of Commerce export promotion programs are distributed amongst 10 other Federal agencies, and while export promotion is undoubtedly within the framework of Commerce, the Department of Agriculture receives 74 percent of the total funding for the programs, although it accounts for only 10 percent of the U.S. exports.

Only 4 percent of the Department of Commerce's budget is used to support trade. Now let's talk about the other 96 percent.

Probably most alarming is the fact that almost half of the Department of Commerce's resources have little or no relationship to promoting or enhancing our Nation's commerce. Nearly 50 percent of the agency's budget, about $1.9 billion annually, and some 35 percent of its staff, are consumed by the National Oceanic and Atmospheric Administration.

The census is another $400 million, and Patents and Trademarks, which is a self-funding agency, was ordered to pay a 25 per-

cent stipend to the Department of Commerce, which they did last year, which was $111 million, although the Department of Commerce only wants to acknowledge the receipt of $85 million. So $26 million just fell through the cracks someplace.

Additionally, the Department of Commerce is notorious as a nesting bed of political patronage, pork barrel projects and corporate welfare. If we are truly sincere in our effort to downsize the Federal Government and reduce the Federal deficit, dismantling the Department of Commerce is a necessary step to show the American people our determination.

Our initiatives are not intended to simply cut programs for the sake of cutting government. We are seeking positive and constructive change that are customer based, that reflect the true needs of the American taxpayers. In addition, we simply want to promote policies that are common sense.

Secretary of Labor Robert Reich has called for an end to the excess of corporate welfare. Well, the Department of Commerce is a golden goose. We are stepping up to this challenge and showing the American people that when we are calling for a more limited government, we are universal in doing so.

The people I talk to in my district are demanding profound change in our Federal Government. They have been for years. They don't want to hear the usual rhetoric about change. They don't care about setting up commissions or reinventing government. They simply want us to make the tough decisions we were sent here to make.

The 104th Congress has a historic opportunity to provide a more limited, less costly, yet more effective government for our citizens. The time has come to put aside political consequences, show national leadership, and concentrate on the fiscal realities facing our Nation.

Thank you, Mr. Chairman, and distinguished Members.

Mr. HORN. Thank you very much, Representative Chrysler. That is a very thoughtful statement that both you and Mr. Brownback have made.

[The prepared statement of Hon. Dick Chrysler follows:]

PREPARED STATEMENT OF HON. DICK CHRYSLER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. Chairman, I would like to thank you and the Members of the Subcommittee for inviting me here today to address the issues concerning the plans to dismantle the U.S. Department of Commerce.

The elections of 1994 provided this Congress with a new class of legislators bent on reducing the size, scope, and cost of our federal government, and making it more user-friendly. As a group of reform-minded Freshman, we felt it was our obligation to follow through on what we had promised to the American people. We want create a government that is accountable and responsible to give all Americans more opportunity.

Last February, the Freshman formed four task forces and announced our intention to dismantle four Cabinet level agencies. Serving as Chairman of the task force on dismantling the Department of Commerce has provided me invaluable insight into the magnitude to which our federal government has extended itself.

Our analysis has been practical, clear and constructive: if a program is worthwhile, we've supported it; if it is duplicative, we've consolidated it; if it is wasteful, we've trimmed it; and above all, if it isn't necessary, we've eliminated it.

In pursuing this goal, some have considered us naive and scoffed at the notion of eliminating an entire Cabinet level agency. Well today, we not only have plans

to dismantle one agency—we have plans to dismantle four. This downsizing of our federal government will be a true victory for the American people.

Created in 1903, the Department of Commerce today operates with a annual budget of roughly $4.2 billion and a workforce of nearly 35,000 employees. After forming a working group of Members and outside experts to study the validity of the department's mission, purpose, and effectiveness, we determined that it should be dismantled.

For whatever intentions, good or bad, the department's existence cannot justify the billions of taxpayer dollars that are poured into the agency each year.

We sought to identify the actual benefits the Department of Commerce provides in relation to its purported mission and costs. The results were less than satisfactory. What we found was exactly what has been echoed throughout our country about Washington bureaucracies: the Department of Commerce is an out-of-touch, out-of-date, self-perpetuating entity that is geared more towards politics and preserving itself than toward serving the American people who foot the bill.

According to the department's own Inspector General, the agency has evolved into "a loose collection of more than 100 programs." The General Accounting Office goes further, reporting that Commerce "faces the most complex web of divided authorities. . ." sharing its "missions with at least 71 federal departments, agencies, and offices."

For example, the Department of Commerce export promotion programs are distributed among 10 other federal agencies. And while export promotion is undoubtedly within the framework of Commerce's purported mission, the Department of Agriculture receives 74% of total funding for the programs, although it accounts for only 10% of U.S. exports.

More alarming is the fact that almost half of the Department of Commerce's resources have little or no relationship to promoting or enhancing our nation's "commerce." Nearly 50% of the agency's budget (about $1.9 billion annually), and some 35% of its staff (over 12,000 employees), are consumed by the National Oceanic and Atmospheric Administration (NOAA).

Additionally, the Department of Commerce is notorious as a nesting bed of political patronage, pork-barrel projects, and corporate welfare. If we are truly sincere in our efforts to downsize the federal government and reduce the federal deficit, dismantling the Department of Commerce is a necessary step to show the American people our determination.

Our initiatives are not intended to simply cut programs for the sake of cutting government. We are seeking positive and constructive changes that are customer-based that reflect the true needs of the American taxpayers. In addition, we simply want to promote policies that are common-sense.

Secretary of Labor Robert Reich has called for an end to the excesses of corporate welfare. Well, the Department of Commerce is the Golden Goose. We are stepping up to this challenge and showing the American people that when we are calling for a more limited government we are universal in doing so.

The people I talk to in my district are demanding profound change in our federal government—they have been for years. They don't want to hear the usual rhetoric about change, they don't care about setting up commissions on reinventing government, they simply want us to make the tough decisions we were sent here to make.

The 104th Congress has an historic opportunity to provide a more limited, less costly, yet more effective government for our citizens. The time has come to put aside political consequences and concentrate on the fiscal realities facing our nation.

Thank you Mr. Chairman and distinguished Members.

Mr. HORN. We now hear from Representative Tiahrt, the coordinator of the freshman task force on the Energy Department.

STATEMENT OF HON. TODD TIAHRT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

Mr. TIAHRT. Thank you, Mr. Chairman. I am going to attempt to summarize and then submit my full report for the record.

Mr. Chairman and distinguished Members, thank you for the opportunity to testify before your subcommittee today on behalf of the House Republican Task Force on the Department of Energy. I want to compliment you for taking a lead on these hearings, and also with having great foresight. There have been editorials in the Wall

Street Journal and the Washington Post supporting the elimination of these agencies, as well as Speaker Gingrich and his task force.

The House Budget Committee and Majority Leader Dole have set up a task force with Senator Abraham and Senator Faircloth. We also have the endorsements of former Secretary of Energy Hodel and others.

At this time, I would also like to thank Representative Charlie Bass; I am sorry he is not here, but he is a member of our task force. He has helped us come up with some of the legislation we are now proposing.

On February 14, freshman Members organized a press conference to announce our intention to close four Cabinet Departments. I have been chairing the effort to eliminate the Department of Energy, together with Mr. Bass; John Shadegg, a distinguished member of this full committee; Dr. Tom Coburn, Frank Cremeans, Mark Foley, Mike Forbes, Dr. Charlie Norwood and Roscoe Bartlett.

We have had some early morning meetings, meeting weekly at 7:30 a.m. to go over some of the various policy questions concerning the Department of Energy. It has been a worthwhile experience for me personally. However, the functions currently held within the Department of Energy are various and complex. In fact, this is one of the main reasons that the Department of Energy needs to be totally reevaluated and we believe, in fact, abolished.

I have met with members of the General Accounting Office several times and each time their message is very clear: The Department of Energy suffers from wide-scale problems of communications, contracting, management, and mission.

I enjoyed debating Energy Secretary O'Leary yesterday on CNBC, and hopefully, our bill will encourage an even larger debate on the need to dismantle her department. The Secretary made clear during our debate that it is important to look at the missions of the various programs within the Department of Energy, and I agree. Just because we want to abolish the Department of Energy does not mean that all its various functions need to be abolished. Please remember that all the functions currently found in the Department of Energy were operated in different areas of the Federal Government before 1977. Today, the Department of Energy functions are in large part still redundant with other agencies within the Federal Government.

The Department of Energy was established by President Jimmy Carter in response to an energy crisis in the 1970's. The goal was to establish a national energy policy. President Carter imposed cost and allocation controls, which, in part, resulted in gas lines, which I am sure all of us can remember, but some of us more than others, depending on where we lived. President Reagan, in his infinite wisdom, ended the cost and allocation controls. The lines ended and have never returned.

In fact, President Reagan campaigned on eliminating the Department of Energy. Of course, that never occurred, but recently, after the November elections, President Clinton sort of "got religion," and the President even floated the idea of eliminating the Department of Energy, and a new round of scrutiny was aimed at the Department.

I do not have to remind any of you about the need to demonstrate to the American people that we are serious about dramatic changes in the way Washington does business. That is not a partisan statement; it is a political fact. The people we represent want us to balance the budget by the year 2002, and the Department of Energy should jump aboard that glide-path.

Secretary O'Leary is proud of her new proposal which would supposedly streamline the Department and cut $14.1 billion over 5 years. However, the FY 1996 budget the President submitted recommends increasing the Department of Energy's spending by $337 million. It is this very double-speak that contributes to the growing public cynicism of the way Washington does business. If the Secretary wants to make dramatic cuts, there is no time like the present, but I think we can be bolder.

What does the Department of Energy task force recommend? In summary, we are proposing to sell all five Power Marketing Administrations, the Naval Petroleum Reserves, a part of the Strategic Petroleum Reserve. Additionally the task force will recommend that the national security components within the Department of Energy be transferred to the Department of Defense under civilian control. So it would be a civilian-run agency under the Department of Defense, with a civilian Under Secretary. We would also move the Environmental Management and Weapons Stockpiling programs to the DOD under civilian control.

The labs pose an interesting question. There are approximately 28 labs. We are proposing a BRAC-like commission that would go through and look at consolidation, privatization and elimination of the duplication. It would be an up-or-down report that we would vote on.

The task force will also recommend cuts in science and technology research. I agree with Representative Walker, chairman of the Science Committee on which I serve, that basic research is an important Federal Government function. The question is which agencies should basic research be funded through. The days are over when the government will do research which can appropriately be conducted in the private sector. Corporate welfare must end.

Of course, the Department of Energy performs other functions, like the Federal Energy Regulatory Commission, (FERC), the Energy Information Administration, and the Energy Regulatory Administration. Each of these will be transferred to another agency.

Mr. Chairman, I could go on about our other plans and the new realities which eliminate the need for the Department of Energy, but I realize our time is precious, so I will again thank you for the privilege of testifying before your committee.

Mr. HORN. We thank you.

[The prepared statement of Hon. Todd Tiahrt follows:]

PREPARED STATEMENT OF HON. TODD TIAHRT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

Chairman Horn, and distinguished members, thank you for the opportunity to testify before your subcommittee (Government Management, Information and Technology) on behalf of the House Republican Task Force to eliminate the Department of Energy. At this time I would like to thank Rep. Charlie Bass, a member of our

task force, for all his work to help us come up with legislation which should be dropped in the next few weeks.

On February 14th various Freshman members organized a press conference to announce our intention to close four Cabinet Departments: Commerce, Energy, HUD and Education. I have been chairing the effort to eliminate the Department of Energy, together with Mr. Bass, John Shadegg, a (distinguished member of this full Committee, John Ensign, Dr. Tom Coburn, Frank Cremeans, Mark Foley, Mike Forbes, Dr. Charlie Norwood and Roscoe Bartlett.

We have had some early mornings, meeting weekly at 7:30 am to go over the various policy questions concerning the DOE. It has been a worthwhile experience for me personally. However, the functions currently held within the DOE are various and complex. In fact, that is one of the main reasons the DOE needs to be totally re-evaluated, in fact abolished. I have met with the GAO several times, and each time their message was clear: the DOE suffers from wide-scale problems of communication, contracting, management and mission.

I enjoyed debating Energy Secretary O'Leary yesterday on CNBC. Hopefully, our bill will encourage an even larger debate on the need to dismantle her Department. The Secretary made clear during our conversation that it is important to look at the missions of the various programs within DOE. I agree. Just because we want to eliminate the Department, does not mean that all its various functions would be abolished. Please remember that all of the functions currently found in DOE were operated in different areas of the federal government before 1977.

The Department of Energy was established by President Jimmy Carter in response to the energy crisis of the 1970's. The goal was to establish a national energy policy. Carter imposed cost and allocation controls which resulted in gas lines, which I am sure all of us can remember, but some of us more than others depending on where we lived. President Reagan, in his infinite wisdom ended the cost and allocation controls. The lines ended, and have never returned.

In fact President Reagan campaigned on eliminating the DOE. Of course that never occurred, but recently, after the November elections President Clinton "got religion." The President floated the idea of eliminating the DOE, and a new round of scrutiny was aimed at this department.

I do not have to remind any of you about the need to demonstrate to the American people that we are serious about dramatic change in the way Washington does business. That is not a partisan statement; it is a political fact. The people we represent want us to balance the budget by the year 2002, and the Department of Energy should jump aboard the glidepath.

Secretary O'Leary is proud of her new proposal which would supposedly streamline the department and cut $14.1 billion over five years. Yet, for FY 1996 the President requested a budget increase for DOE of $337 million. It is this very doublespeak that contributes to growing public cynicism in the way Washington does business. If the Secretary want to make dramatic cuts, there is no time like the present. But, I think we can be bolder.

What would the DOE task force propose? Well, let me first caution that our legislation is still being perfected. But, I can give you an idea about where we are heading.

I. The task force is moving to sell all five PMAs, the Naval Petroleum Reserves, and the Strategic Petroleum Reserve.

II. The task force will move the national security components of DOE to the Department of Defense under civilian control. This move will include EM (Environmental Management) and Weapons Stockpiling.

III. The labs pose an interesting question. There are nine multi-purpose labs, and nineteen smaller DOE labs. Three of the nine multi purpose labs primarily perform DOD research. All of these labs should be scrutinized. We will propose a BRAC-like commission which will have a short period of time to produce a recommendation. We will be able to vote on that report: up or down.

IV. The task force will likely recommend cuts in science and technology research. I agree with Rep. Walker, Chairman of the Science Committee on which I serve, that basic science research is an important federal government function. The question is through which agencies should basic science be funded. The days are over when the government will do the research which can appropriately be conducted in the private sector. Corporate welfare must be ended.

V. Of course DOE performs other functions: Federal Energy Regulatory Commission, Energy Information Administration, and the Energy Regulatory Administration. Each of these will be transferred to another agency, or made independent.

Mr. Chairman, I could go on about our plans, and the new realities which eliminate the need for a Department of Energy. But, I realize that time is a precious

source to you. I will be happy to entertain any questions. Once again, thanks for the privilege of testifying before you and your committee.

It's Time to Turn the Lights Out at the Department of Energy!

FY 1996 Budget Request: $17.8 Billion

	Amount
DOE Direct Employees	20,000
DOE Indirect Employees	150,000
Management and Overhead	0.4 Billion
Weapons Stockpile Maintenance	4.9 Billion
Weapons Clean-up	7.0 Billion
Energy	3.3 Billion
Science	2.2 Billion

"We're not suffering from a shortage of energy. We're suffering from a surplus of government." - President Ronald Reagan

Mr. HORN. Since we all have to go over and vote, why don't we recess for about 12 minutes and try to be back here by about 4:02. We will then pursue questions.

[Recess.]

Mr. HORN. The committee will come to order. We will now begin the questioning, starting with the ranking minority member, Mrs. Maloney of New York.

Mrs. MALONEY. First of all, Mr. Chairman, I would like to congratulate the panel, the thoughtful presentation by the freshmen. It is obvious that you have worked very hard on your proposals and your testimony and have done a great deal of research, and I really sincerely compliment you.

One of the problems that I have is that what we are discussing is not what you are proposing. The idea that Mr. Mosbacher put forward of downscaling Commerce and having one representative and a Department, really, of Trade makes sense. The ideas of Mr. Walker, focusing on science and moving forward aggressively in scientific research makes sense, but that is not the proposal that is before us.

The Budget Committee dismantles these programs and sends the duties to various existing areas, whether it is EDA or Defense or whatever. So they are totally dismantling it and dispersing it.

So your testimony is really advocating for downscaling and creating a new entity, but that is not really what is taking place. What is taking place is dismantling and placing in existing areas. That is what is taking place and——

Mr. TIAHRT. There are really two separate items here.

On the Department of Energy, for example, there is the sale of the Power Marketing Administrations, the Naval Petroleum Reserves, and the Strategic Petroleum Reserve, which would eliminate large portions of the Department of Energy's budget.

There also is, within government, redundant missions and that when we talk about refocusing we are going to eliminate the duplication and bureaucracy and downsize government in doing so.

We have also come across in various agencies a very poor job of management, focusing on mission, of communications. Vice President Gore had a commission that looked at the Department of Energy and said that the environmental management is approxi-

mately 40 percent inefficient, which could cost us an additional $70 billion over the next 30 years.

So there is a large, complex problem here, but part of this is not going to be reshuffling. It is not a shell game. We are going to sell assets of those functions that are better done in the private sector, and we are going to try to eliminate all the redundancy in missions and bureaucracy in the government.

Mrs. MALONEY. But specifically on the testimony of Mr. Mosbacher, since he was just here, what the Budget Committee proposed is a dismantling and placing functions in various places—the trade into ITC, which private industry apparently, from some testimony and letters we received, object to, and they don't feel that their concerns will be listened to there.

So what we are considering now when we vote for the budget or vote against the budget on the floor is not the idea of Mr. Mosbacher of downscaling and then taking the very important aspect of trade and putting it in a new Cabinet position that will be a strong voice for competitive protection and competitive trade for American industry.

So, in other words, you are not really testifying on that which is before us. That is not the proposal that is before us that we will be voting on this week.

Mr. BROWNBACK. We are not testifying about the budget or any proposal, period.

Mrs. MALONEY. But the committee abolishes the Commerce Department and——

Mr. BROWNBACK [continuing]. As you know.

Mrs. MALONEY [continuing]. Places the duties around, not—it doesn't follow the proposal that Mr. Mosbacher was putting forward.

Mr. BROWNBACK. But all the Budget Committee does is set an overall number and then provides an illustrative list underneath that, none of which is oinding. It is the number on top that you have to meet that is binding, but the illustrative list is not.

Mr. HORN. Mr. Brownback is precisely correct. The Budget Committee simply gives a list of illustrations. The Budget Committee might not have one vote in the House for some of their illustrations. But the authorizing and Appropriations Committee do have to abide by the final numbers. But the Budget Committee can put a list together any way they want.

No one in the House is bound by the Budget Committee. It seems to be hard for the media and some of our friends to understand that, but that is the way the system works.

Mrs. MALONEY. Well, then, are you proposing a new Department of Trade, as Mr. Mosbacher suggested, and a new Department of Science, as Mr. Walker suggested?

Mr. CHRYSLER. Well, we actually have terminated 7 different departments in the Commerce Department, transferred about 8 different departments, main areas, and we are looking at taking the 19 different departments throughout the Federal Government and try to consolidate those into a Trade Department so that we can do a better job where the right hand knows what the left hand is doing. And that doesn't necessarily need to be in the Commerce Department, and/or should it be, because right now, 74 percent of the

entire budget that is spent for all these 19 different departments is spent by the Department of Agriculture, in fact.

Mr. BROWNBACK. We are not proposing a Department of Science.

Mrs. MALONEY. But you—Mr. Chrysler, you will be coming back with legislation proposing a Department of Trade; is that correct?

Mr. CHRYSLER. We will look at putting some of those departments under the USTR, and also under the ITC.

Mrs. MALONEY. Mr. Mosbacher——

Mr. CHRYSLER. Existing departments.

Mrs. MALONEY. So you are not going to have a new Department of Trade. You will have it under ITC and——

Mr. CHRYSLER. USTR.

Mrs. MALONEY. Another item—my time is running out—that Mr. Mosbacher mentioned, that he would contract out the oceanographic aspect that was—I think he said it was 60 percent of the budget, the OAA.

Mr. CHRYSLER. NOAA.

Mrs. MALONEY. NOAA?

Mr. CHRYSLER. Yes.

Mrs. MALONEY. He was going to contract that out. But sometimes contracting out costs more than doing it yourself. How is he convinced that that will save money?

Mr. CHRYSLER. In the proposal that we put forward—and we actually drafted legislation and came up with a number of $7.7 billion that we passed on to the Budget Committee that they are using in their numbers, there are parts of NOAA that would be consolidated into the Department of Interior. There are parts of it that would go into Air Force and there are parts of it that would go—be privatized.

Mrs. MALONEY. My time is up. Thank you very much, and thank you for your thoughtful presentation.

Mr. BROWNBACK. Thank you.

Mr. HORN. I join the ranking minority member in praising each of your presentations. As I said to you, I think you have done a wonderful job on this.

Let me pursue a few questions, and if we don't have time. We will ask you to reply in writing.

Let's take the Power Marketing Administrations and, Todd, I guess that is your baby. They provide preferential rates to various users, primarily municipal utility districts. Increases in utility costs would be a very sensitive issue in those areas that rely on those savings. Could the purchasers of privatized Power Marketing Administrations be required to honor existing preferential rates?

Mr. TIAHRT. Well, the proposal that we have does include rate stabilization. We would have a consulting firm establish asset rates, take bids and allow the users, which are now getting the power from the PMA's, to have the first right of refusal; there will be a rate stabilization clause.

We have heard dramatic increases in rates are possible, but I think we need to consider that the cost of generating power is a lot less than the cost—the retail cost of power, and those increases that they are concerned about are based on retail portion, which is much smaller. By having rate stabilization, these rates would

then equal the market over a period of years and, I think, allow the users very minimal rate increases.

Mr. HORN. In a sense, that is an employee-taxpayer buyout.

Mr. TIAHRT. Could be.

Mr. HORN. Very interesting. If the customers of the Power Marketing Administration had to pay higher electric rates in the future, that would be their own problem, since they are now the owners, under your theory?

Mr. TIAHRT. That is correct.

Mr. HORN. This is a bid situation, isn't that correct?

Mr. TIAHRT. They would have the first right of refusal to match whatever—whoever—you know right now Tucson Power, for example, is communicating with the White House about the purchase of Southwest Power Marketing Administration, and if they care to make a bid and users wanted to match that bid, they would have the first right of refusal.

Mr. BROWNBACK. Mr. Chairman, I might also note that as we advise foreign countries on what they should do to grow their economies, we suggest to them to sell off their government power generation.

Mr. HORN. Sure. I take it we could write into the law a condition limiting the ability of these Power Marketing Administrations to raise rates if purchased by a private entity. Or, if the public entity didn't match the bid and acquire the Power Marketing Administration, then there are no limits on rates, I take it?

Mr. TIAHRT. No. The rate stabilization clause would be part of the purchase agreement. They would have to stay within——

Mr. HORN. What does the 5-year rate stabilization mean?

Mr. TIAHRT. It would limit the amount of growth that is added to the power generation costs over a period of years.

Mr. HORN. OK, let's move to the nuclear weapons question, also with Energy. You perhaps heard some of the discussion we had with Secretary O'Leary on this and there is a historic feeling that nuclear weapons production should be under civilian control, not the jurisdiction of the Department of Defense. Where did the freshmen task force come down on this issue?

Mr. TIAHRT. We tried to respect the desire of keeping it under civilian control by making an Under Secretary inside the Department of Defense, answering to a civilian, the Secretary of Defense, so we would have a chain that is not military but civilian control.

I think, though, it is somewhat ironic that we are completely confident in the military as long as our nuclear weapons are armed, but the moment we unarm them and stockpile them, we no longer trust the military to oversee this. I don't have much of a problem with having them in the military personally, but I do respect others that have some concerns; so when we structured it, we did so so that the civilians would control the stockpiling under the Secretary of Defense, which is a civilian position.

Mr. HORN. Well, I guess I don't see that as civilian control. Some people that have gone over to Defense have become much more militaristic than the generals who were there in war. I worry a little bit about that proposal, and don't really think that is isolated from the Department of Defense per se.

Are there any comments you would like to add after listening to Secretary O'Leary, or Secretary Mosbacher?

Mr. TIAHRT. I would like to say just one thing briefly before I slip out of here. That this is a very historical undertaking. Never before, to my knowledge, in the history of the U.S. Government have we eliminated a Cabinet-level position.

We are proposing not one, but four over a period of time, and I think it is a time when we need to make some courageous moves, and so this is not going to be an easy task. We are working out the details. Nothing is in concrete yet.

The chairman's suggestions about how we should handle Environmental Management and Weapons Stockpiling, we are certainly open to suggestions. I have been here long enough to know that I don't have all the answers. But I hope that I can find people that do.

Mr. HORN. Well, we thank all three of you. And thank your colleagues and the various task forces.

Mr. CHRYSLER. Mr. Chairman, if I may say one thing, and I think it adds to that, on the date of enactment of eliminating the Department of Commerce, there would be about seven agencies that would be terminated immediately. Then there would be about a 6-month moratorium where you would come up with the Commerce program, resolution agency, and then it would take about a total of 3 years before you would finally phaseout the Department of Commerce.

So this stuff doesn't happen overnight. It is going to take a little while to phase it out.

Mr. HORN. Very good. Again, we thank you for the fine job.

We have a vote, and then we have panel four when we come back.

We will recess for about 12 minutes.

[Recess.]

Mr. HORN. The hearing will resume. Let me swear in the witnesses.

[Witnesses sworn.]

Mr. HORN. All the witnesses affirmed.

We will start with Mr. Hodge.

He is the Grover M. Hermann fellow in federal budgetary affairs at the Heritage Foundation, and I notice in your statement you give the usual disclaimer that Brookings or AEI give, that these are strictly your opinions, not those of the Heritage Foundation.

STATEMENT OF SCOTT HODGE, GROVER M. HERMANN FELLOW IN BUDGETARY AFFAIRS, THE HERITAGE FOUNDATION

Mr. HODGE. Well, thank you, Mr. Chairman, I appreciate that, and distinguished members of the committee. I have submitted written testimony for the record, and I would like to summarize that in my oral presentation if I might.

I do applaud today's hearing on exploring ways of restructuring the Federal Government, and I certainly applaud the efforts of the freshmen task force. I have worked very closely with many of those members and their staffs.

By any reasonable measure, the Federal Government is broke, and the Federal Government therefore must be treated as if it were

a major corporation facing Chapter 11 bankruptcy. This means that we in Washington and Congress should ask the same tough questions of government that CEO's around the country are asking of their businesses. What is our core business? Should we be doing some things that we are now doing? Should we start terminating various aspects of our business?

Tinkering with the process of government is not reinventing government. Making obsolete programs simply process paperwork more efficiently is simply a waste of time. Taxpayers do not want useless and obsolete programs to waste their money more efficiently.

If we are serious about restructuring government, we must challenge the substance of every government program, top to bottom. And certainly we feel that we have done that at the Heritage Foundation in a new book we are calling, Rolling Back Government. This was released 2 weeks ago and a copy has been provided to every member of the committee.

Mr. HORN. Well, we thank you. I just thumbed through it a little while ago, and it looks very comprehensive.

Mr. HODGE. Thank you.

Mr. HORN. So I congratulate you on all the hard work.

Mr. HODGE. Thank you.

I chose not to submit it for the record, as it has 283 pages, but Rolling Back Government is a detailed, line-by-line analysis of the Federal budget. We see it as a how-to book to radically overhaul the Federal Government in a way that protects social security and national defense, yet producing the kinds of spending cuts that are needed to balance the budget and pay for tax cuts; and we feel our plan asks and answers the question that is not being dealt with in Washington, and that is, what should the Federal Government look like as we move into the next century?

Our vision is a government that is focused solely on national functions, not functions that are best left to State and local governments or to private individuals and businesses. Under our plan, the number of Cabinet agencies would shrink from today's 14 to just 5. In other words, we recommend either eliminating or reducing in size nine Federal Cabinet Departments.

Under our plan, the Departments of Commerce, Education, Energy, Housing and Urban Development, Transportation and Labor would largely be eliminated outright. Some critical functions would, of course, be transferred to other agencies or made independent.

Our plan would dramatically reduce in size and downgrade from Cabinet level the Departments of Agriculture, Interior and Veterans Affairs. This is not simply an exercise in streamlining the flow chart of the Federal Government. Our plan would save taxpayers nearly $800 billion over 5 years, more than enough to pay for the Contract's tax cuts and balance the budget by the year 2000, a full 2 years ahead of the schedule that is outlined in the Republican budget resolution.

But I would like to take a moment, if I might, to address the major topic today, and that is downsizing and eliminating the Departments of Commerce and Energy; and I wholeheartedly support the Budget Committee's commitment to close these outmoded and unnecessary Cabinet Departments.

Let's begin with the Department of Commerce. By any objective standard used in downsizing corporations around the country, the 92-year-old Department of Commerce should have been closed years ago. First, the Department of Commerce has no clearly defined mission or purpose. According to Commerce's own Inspector General, this agency has evolved into a loose collection of more than 100 programs delivering services to about a thousand consumer bases.

Second, the Department of Commerce is unnecessary because the entire agency duplicates the efforts of other government programs. The General Accounting Office has adequately said that the—Commerce faces the most complex web of divided authorities because it shares its duties and functions with at least 71 other Federal departments and agencies. The Department of Commerce cannot be reinvented; it should simply be dismantled and closed.

Congress should begin dismantling this agency by eliminating outright the vast amount of corporate welfare in Commerce's budget. This means terminating the Economic Development Administration, the U.S. Travel and Tourism Administration, the Minority Business Development Agency, the Technology Administration—especially the Advanced Technology Program—and downsizing Commerce's trade functions.

NOAA, the National Oceanic and Atmospheric Administration, should be dismantled as well. The National Weather Service can be severely downsized and made into a small, independent agency. Many of its functions should be privatized. Many—much of the National Marine Fisheries Service, NMFS, should be transferred to the Department of Interior, and the remainder of NOAA functions should be privatized or terminated.

Moving on to Energy. Quite certainly the Department of Energy is a government program in search of a problem. Secretary O'Leary's recent plan to eliminate over 2,500 DOE positions is similar to a corporation's belated attempts to avoid a hostile takeover. It is simply too little, too late to avoid the poison pill of termination.

The General Accounting Office has been highly critical of Energy's management practices, and I think it is ripe for termination. Energy should be dismantled into small sub-Cabinet-level departments, such as was mentioned earlier. The defense-related programs should be moved under the jurisdiction of the Department of Defense in a civilian role.

Congress should take a serious look at streamlining the massive environmental cleanup costs. The primary research functions should be transferred to the universities and all Federal funding should be phased out. Federal funding for commercially oriented energy supply R&D projects should be terminated as corporate welfare, and the research responsibilities should therefore be turned over to the private sector. Conservation funding, as well, should be turned over to the private sector or the States.

Commercial energy functions such as the Power Marketing Administration, Naval and Strategic Petroleum Reserves should be denationalized and sold to the private sector.

In conclusion, the new Congress has a tremendous opportunity to radically overhaul the Federal Government while it seeks to bal-

ance the budget and pay for tax cuts. However, we must look critically at the substance of what government does, not simply the process of how government does it. Congress will get no credit from taxpayers if we simply make obsolete programs waste their money more efficiently.

Thank you, Mr. Chairman. I would be delighted to answer any questions that the committee might have.

Mr. HORN. Well, thank you very much. We will go through all the witnesses, and then have a mutual dialog of the two of us and three of you.

[The prepared statement of Mr. Hodge follows:]

PREPARED STATEMENT OF SCOTT HODGE, GROVER M. HERMANN FELLOW IN BUDGETARY AFFAIRS, THE HERITAGE FOUNDATION

Mr. Chairman, distinguished members of the Committee, my name is Scott Hodge. I am a senior budget fellow at the Heritage Foundation. I must emphasize, however, that the views I express are entirely my own, and should not be construed as representing any official position of The Heritage Foundation. Thank you for inviting me here this afternoon to discuss The Heritage Foundation's proposal to restructure the executive branch of the federal government. The staff of the Heritage Foundation recently released a 283 page book entitled "Rolling Back Government: A Budget Plan to Rebuild America." This plan is the culmination of more than two decades of work by scholars at Heritage, and it would radically change the structure of the federal government and the way certain major programs are delivered. A large portion of my testimony today is drawn from that work.

The American people know that government is too expensive, is mired in debt, and does a poor job of carrying out its core functions while doing many things it should not do. They know that they find it harder to make ends meet as their tax burden continues to increase—especially if they are bringing up children. And they know that levels of government closer to them, as well as businesses in their local community and private groups dealing with social problems, seem entangled in costly federal red tape.

Americans want something done to fix these structural problems. That is why they elected Bill Clinton as President in 1992. But despite endless talk of "reinventing government" and taking bold action, the Clinton Administration has proposed nothing that would change fundamentally the way government works, to say nothing of its size. Peter Drucker, the renowned management expert, has argued that a fundamental overhaul is needed: "Every agency, every policy, every program, every activity, should be confronted with these questions 'What is your mission?' 'Is it still the right mission?' 'Is it still worth doing?' 'If we were not doing this, would we go into it now?'" However, the Administration proposes nothing in its FY 1996 budget plan like the top-to-bottom reorganizations undertaken by major U.S. corporations facing chronic financial problems.

The American people elected a Congress last November that promised to be more aggressive at "reinventing" government than the White House has proven to be. And they elected a Congress to let Americans keep more of their own money to spend on things that are important to their families, rather than sending that money to Washington for bureaucrats to spend for them. The Fiscal Year 1996 budget should establish a credible plan for reducing the deficit while allowing families to retain more of their earnings of taxes by providing tax incentives for savings and investment.

The Fiscal Year 1996 budget can and should demonstrate that it is possible to balance the budget and provide long overdue tax relief to American families. Significant reductions in spending can be achieved through the elimination and scaling back of dozens of inefficient, ineffective federal programs. Americans should not have to bear a heavy tax burden to finance a wide array of government programs that do not work.

The Heritage budget plan overhauls the entire structure of the federal government by strengthening programs that are the core functions of a national government, transferring functions that are not proper federal activities to the states or to the private sector, and closing down obsolete and wasteful programs. Most Americans would be stunned to learn how old many federal programs and agencies really are. Large segments of the federal bureaucracy were created decades ago for purposes long since forgotten. Like any corporation undergoing serious restructuring,

Congress needs to review obsolete activities. It is time, for instance, to strip out of the budget such pre-World War II programs as the Rural Electrification Administration, the National Helium Reserves, Impact Aid, and the Interstate Commerce Commission.

Many relatively new programs also have seen their missions made obsolete by technological and social changes. The Corporation for Public Broadcasting, Low-Income Home Energy Assistance, and the Department of Energy, for example, are all outmoded or irrelevant because of technological and market changes.

Because outmoded, obsolete, or inefficient programs almost never die, bureaus, agencies, and programs that duplicate each other's functions have sprung up all over the government. The National Performance Review identified a staggering degree of duplication throughout the federal bureaucracy. For example:

- Some 14 separate government departments and agencies spend $24 billion a year on 150 employment and training programs.[1]
- Washington spends "about $60 billion a year on the well-being of children. But we have created at least 340 separate programs for families and children administered by 11 different federal agencies and departments."[2]

The U.S. General Accounting Office also has documented massive duplication throughout the federal government. Entire Cabinet agencies are duplicated by other federal departments. Among the GAO's findings:

- "The Department of Commerce shares its mission with at least 71 federal departments, agencies, and offices."[3]
- "Export promotion programs are fragmented among 10 agencies. The U.S. Department of Agriculture, not Commerce, receives about 74 percent of total funding for these programs, although it accounts for only about 10 percent of U.S. exports."[4]
- A special interagency report issued by the Department of Commerce with the Departments of Defense, Energy, and State concluded that the duplication of export control programs by the Bureau of Export Administration within Commerce was unnecessary. The four-agency report concluded: "Consolidating these functions under the appropriate official will provide not only the proper oversight but also a more efficient and effective approach for tracking referred applications and examining export trends."[5]

Under the Heritage Plan, the FY 1996 budget should be, among other things, a "Federalism Budget." Congress should enact a budget that makes clear that the first responsibility of the federal government is an adequate national defense. Congress then should examine every other program to determine whether it is truly national in scope and can be carried out on a national scale only by the federal government. Funding for all agencies and programs that fail to meet this test, such as many education, welfare, health, transportation, and other programs, should be transferred to the states or returned to the people as federal tax reductions.

The federal budget should distinguish clearly between those activities that are the exclusive responsibility of the public, or government, sector and those that should be the responsibility of the private sector. In addition, it should describe areas where there is a public purpose but the activity still should be carried out by private institutions, either directly or under contract to government. For example, the five Power Marketing Administrations operated by the Department of Energy represent commercial activities in which the federal government should not be involved. Customers of the PMAs have enjoyed hidden taxpayer subsidies because these government-owned utilities have been able to borrow at below-market interest rates from the Federal Treasury and take as long as 50 years to pay back the loan. It is time for the five Power Marketing Administrations to become fully private enterprises.

An intensive privatization, or denationalization, effort to reassign essentially private functions to the private sector is long overdue in this country. Governments throughout the world, from Russia to Mexico and from Japan to Great Britain, have been redefining the role of government in a private economy. These governments are aggressively denationalizing state-owned enterprises, cutting subsidies to inefficient industries, removing barriers to private investment, and restoring property rights. Yet the U.S. government continues to control hundreds of private activities and

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[1] National Performance Review, p. 49.
[2] Ibid, p. 51.
[3] GAO Transition Series, Commerce Issues, p. 9.
[4] Ibid.
[5] The Federal Government's Export Licensing Process for Munitions and Dual-Use Commodities, Special Interagency Review conducted by the Offices of Inspector General at the U.S. Departments of Commerce, Defense, Energy, and State, September 1993, p. 3.

functions such as public utility management, railroad services, small business loans, printing and publishing, agriculture subsidization, and oil extraction and storage.

The Heritage Plan would radically change the structure of the federal government and the way certain major programs are delivered. The broad purpose of the plan is to reserve Cabinet-level status only to the core national activities of the federal government. Other departments concerned with narrower or overlapping functions would be closed down or reconstituted as independent agencies or bureaus within other Cabinet departments.

To accomplish this, the Heritage Plan for the FY 1996 budget calls on Congress to examine all federal programs and:

1. Question the need for any program that is more than 50 years old and eliminate any that is outmoded or obsolete.
2. Terminate newer programs that are outmoded or obsolete.
3. Eliminate programs that duplicate or overlap other programs.
4. Cancel programs with a long history of failure or irrelevance.

Under this reorganization, the number of Cabinet departments would shrink from today's 14 to just five (see Appendix). Many of the functions currently carried out by the dismantled agencies would be eliminated, but others would be transferred to the states, the private sector, other departments, or three new independent agencies: the Bureau of Agriculture (primarily functions previously carried out by the Department of Agriculture), the Bureau of Natural Resources (Interior), and the Bureau of National Statistics. An important objective of the last new agency is to house the responsibilities of each data-collection office of the executive branch within a government body that is not under the jurisdiction of a department concerned with policy and politics.

Heritage Foundation scholars are currently working a series of papers that expands on our budget plan by providing more details about how to go about implementing this important government restructuring, particularly the dismantling of certain federal agencies. For example, Congress is now considering dismantling the Department of Commerce and the Department of Energy, a recommendation made in our budget study. I will review briefly why we believe that dismantling these two departments makes for good policy and a sound budget. I have included summary information on our recommendations for other agencies in an Appendix to this testimony.

The Department of Commerce has a budget of roughly $3.6 billion per year and a workforce of nearly 35,000 but lacks a clear focus. Even its own Inspector General admits that Commerce has evolved into "a loose collection of more than 100 programs delivering services to about 1,000 customer bases." The General Accounting Office reports that Commerce "faces the most complex web of divided authorities" from sharing its "missions with at least 71 federal departments, agencies, and offices."

Most of Commerce's resources have little or no relation to the agency's purported mission. For instance, nearly 60 percent of the agency's budget (about $1.9 billion per year) and some 37 percent of its staff are consumed by the National Oceanic and Atmospheric Administration (NOAA). While export promotion programs, reports GAO, are distributed among 10 agencies, "The U.S. Department of Agriculture, not Commerce, receives about 74 percent of total funding for these programs, although it accounts for only about 10 percent of U.S. exports."

Most Commerce Department programs badly need innovation and capital investment. But these must come from the private sector, not government. Due to political and budgetary pressures, much of the Department's capital stock is in disrepair. The GAO reports that Commerce's infrastructure—"federal laboratories, a fleet of ships, weather satellites and radar, information systems, and other facilities and equipment—will require investments of at least $7.4 billion over a 15-year period." The National Weather Service modernization program "has exceeded its expected cost and is far behind schedule. The initial cost estimate of nearly $2 billion has risen to $4.6 billion," and the projected completion date has slipped from 1994 to 1998.

The Department of Commerce cannot be "reinvented." Under the Heritage Plan, the Department would be dismantled. Obsolete and outmoded programs would be terminated, and duplicative programs would be transferred into other departments. Commercial activities should be privatized or closed—with corporations expected to pay for their own research, advertising, and other costs of doing business.

The Department of Energy, like Commerce, is an agency in search of a mission. It was created as a Cabinet-level department in 1977 by President Jimmy Carter as a consolidated federal effort to address the energy crisis of the late 1970s. Fearing that international energy shortages were the wave of the future, the President felt a highly visible national agency was necessary to promote energy conservation,

control federal supplies of power, and develop alternative sources of energy. However, the OPEC oil embargo collapsed after the creation of the Department—without any assistance from the DOE—and international oil supplies stabilized.

Despite the lack of a purpose, DOE has grown in tax dollars spent and functions performed—the result of fifteen years of searching for something to do. As Victor Rezendes of the General Accounting Office has testified, "DOE's mission and priorities have changed dramatically over time so that the Department is now very different from what it was in 1977. While energy research, conservation and policy-making dominated early DOE priorities, weapons production and now environmental cleanup overshadow its budget."[6] Thanks to this continual "empire building," the Department's budget has increased by 155 percent since its creation despite the lack of even the threat of a national energy supply crisis. Today, 85 percent of DOE's budget is spent on activities other than energy resources. Nearly $12 billion is budgeted annually for environmental quality and nuclear waste disposal. More than $2.8 billion is budgeted annually for fundamental science research, including $26 million for "analysis and program direction."

The Department of Energy not only has strayed from its original mission of energy oversight, but also has failed to conduct efficiently the services it now provides. Vice President Gore's National Performance Review reports that due to inefficiencies as high as 40 percent within DOE's Environmental Management program, more than $70 billion could be lost over the next thirty years. Victor Rezendes of the GAO testified that "DOE suffers from significant management problems, ranging from poor environmental management . . . to major internal inefficiencies rooted in poor oversight. . . ."[7] These management problems and the inefficiencies that flow from them have been caused largely by DOE's continual efforts to re-align itself and justify its existence.

The Heritage plan would close the Department of Energy. DOE's defense-related programs would be transferred to an agency under the jurisdiction of the Department of Defense, and its primary research functions transferred to the universities or to the National Science Foundation. Federal funding for commercially oriented energy supply, research, and development projects would be terminated, and the research responsibility would be transferred to the private sector. All commercial energy functions, including the Power Marketing Administrations (PMAs), Petroleum Reserves, and Uranium Enrichment activities, would be denationalized and sold to the private sector.

CONCLUSION

While a fundamental reorganization of the massive federal bureaucracy may seem a daunting task, it is one that, if properly conducted, will allow the federal government to properly carry out its core functions more efficiently and effectively. As I mentioned at the beginning of my testimony, the Heritage Foundation plan is a plan based on the themes of federalism, privatization, and an efficient delivery of core federal government functions. Only by adhering to these themes will you be able to deliver on the mandate sent by the American people last November to re-create an efficient, yet limited, federal government.

APPENDIX

DEPARTMENT OF AGRICULTURE

Under the Heritage Plan, the activities of the U.S. Department of Agriculture would be reduced sharply over the next five years, and the Department would be turned into an independent agency without Cabinet status.

The Department of Agriculture's bewilderingly complex planning apparatus of commodity support programs and production controls would be terminated. The Forest Service (which comprises more than half of USDA's staff) would be merged with the three other major land management agencies and the lands gradually transferred to the states or to the jurisdiction of the Bureau of Natural Resources, currently the Department of the Interior. The Food Stamp program (which comprises 44 percent of the agency's budget) would be folded into a welfare block grant to the states. The department's failed rural development programs would be eliminated. The Rural Electrification Administration and the Farmers Home Administration would be closed down, with part of the FmHA's funds folded into the welfare block grant.

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[6] Statement of Victor S. Rezendes before the Subcommittee on Energy and Water, Committee on Appropriations, U.S. House of Representatives, January 18, 1995.

[7] Ibid.

DEPARTMENT OF EDUCATION

Under the Heritage Plan, the Department of Education would be closed down, with most of its activities transferred to the states and its data-gathering functions transferred to a new independent agency, the Bureau of National Statistics.

The money now funding most of the Department's programs, including vocational education money and Title I funding, would be transferred to states as a block grant with few strings attached. Ideally, this should be only a transitional step. Ultimately, the block grant should be phased out, dollar-for-dollar, with an enhanced tax credit for families with school-age children. The data-gathering and dissemination functions of the Department would be transferred to a new Bureau of National Statistics. Student loan programs would be reformed and operated by the Department of Health and Human Services.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

The Heritage Foundation plan would close down the Department of Housing and Urban Development. Low-income housing assistance programs would be consolidated into a single block grant for the states within the framework of the proposed welfare block grant. The states would be encouraged to administer the portion of the grant they allocate to housing assistance in the form of housing vouchers and certificates that permit eligible households to choose where they want to live. Such "household-based" assistance costs about half as much as most current programs and would allow individuals to integrate themselves into the community at large according to their own interests and needs. Tenants in existing public housing projects would have the option of portable vouchers or, in a cooperative arrangement, receiving title to the property.

HUD-administered Community Development Block Grants would be eliminated.

The Federal Housing Administration (FHA) would be privatized. HUD's Office of Fair Housing, the chief purpose of which is to combat housing discrimination, would be transferred to the Civil Rights Division of the Justice Department.

DEPARTMENT OF INTERIOR

Under the Heritage Plan, the activities of the Department of the Interior would be scaled down and the Department reconstituted as an independent agency, to be called the Bureau of Natural Resources. This restructured agency would be responsible primarily for managing a selected number of national landmarks (such as Yellowstone, the Grand Canyon, and Mount Rushmore); for overseeing commercial and recreational fishing resources in U.S. waters; and for managing resources that cross state boundaries. The major land management bureaus would be merged into a single natural resources bureau, and most non-landmark federal lands would be transferred to the states.

The Bureau of Reclamation would be closed and its water distribution and dam management functions transferred to the states or special districts. The outmoded U.S. Geological Survey and the Bureau of Mines would be closed and some of their functions privatized.

The Bureau of Indian Affairs would be terminated, with all Native American-targeted programs block granted directly to the tribes.

DEPARTMENT OF LABOR

Under the Heritage plan, the Department of Labor would be closed down, and its activities transferred to the states and other federal departments, privatized, or terminated. The existing patchwork of federal job training programs would be consolidated, simplified, and transferred as a block grant to the states. Vocational education programs would be transferred in a similar manner. The unemployment insurance program, currently financed by a tax on employers, would be transferred entirely to the states. Several remaining functions of the Department would either be transferred to more appropriate agencies, or terminated.

DEPARTMENT OF TRANSPORTATION

Under the Heritage Plan, the Department of Transportation would be closed down. Federal funding would end for highway demonstration projects, the Interstate Commerce Commission, Amtrak, the Federal Transit Administration, the Essential Air Service, and the Maritime Administration. The Air Traffic Control component of the Federal Aviation Administration would be moved to an independent government-owned corporation as a first step toward full privatization. The U.S. Coast Guard would become an independent agency.

Functions of the Federal Highway Administration would be transferred to the states. This transfer would mean rolling back the federal fuels tax and allowing the states full discretion to assume this taxing authority. Although such a measure would have little or no effect on the federal budget, it is sound policy.

DEPARTMENT OF VETERANS AFFAIRS

Under the Heritage Plan, the Department of Veterans Affairs would cease to be a Cabinet department and would be reconstituted as the Bureau of Veterans Affairs within the Department of Defense.

The Veterans Compensation program would be modernized and targeted to low-income veterans with disabling service-connected injuries. All new construction of VA facilities would be halted and an inventory taken to determine which facilities should be closed and which upgraded. Veterans Medical Benefits would be converted from direct delivery to a voucher system that veterans could use, if they wished, at private sector facilities. All remaining benefits, housing loans, and education assistance would be modernized to prevent abuse and inefficiency.

BUREAU OF NATIONAL STATISTICS

Under the Heritage plan, a new independent agency would be created to carry out the data collection and dissemination functions of the federal government. The Bureau of the Census would be the foundation of this new agency. Also included would be the statistical responsibilities of the Bureau of Labor Statistics (Department of Labor), the Bureau of Economic Research (Department of Commerce), the Economic Research Service (Department of Agriculture), and every other executive branch statistical office.

The consolidation of federal statistical offices will allow the government to perform its data gathering functions more efficiently by eliminating duplication and inconsistencies. In addition, with all of these functions brought together in one agency that is separate from policy-driven departments, staff could more easily maintain their independence. Currently, many departments and agencies collect their own data and perform their own statistical analysis. Intentionally or not, this can lead to results that favor certain policies instead of presenting a dispassionate set of facts. The consolidation of statistical offices within an independent agency will remove the danger of bias in statistical information.

Mr. HORN. Next will be Mr. Jerry Taylor, director of natural resources studies for the Cato Institute.

STATEMENT OF JERRY TAYLOR, DIRECTOR OF NATURAL RESOURCES STUDIES, CATO INSTITUTE

Mr. TAYLOR. Thank you, Mr. Chairman. Let me preface my discussion on the Department of Energy today by noting that I have submitted in written testimony a rather extensive plan of department reorganization that I will briefly summarize here in a moment.

Mr. HORN. As you know, all of the testimony that you prepare is put into the record immediately after we introduce you, and then summarize it in 5 minutes.

Mr. TAYLOR. Wonderful. Let me preface my remarks by two points.

First, it is my contention that energy is no different from any other commodity in the marketplace. Energy production and distribution are better directed by market forces than by government planners. There is no more reason for a Department of Energy than there is for a Department of Automobiles or a Department of Computer Software. That might be unpopular in Washington, but that is the consensus view of energy economists around the world.

The Department of Energy is generally defended on the grounds that energy is too important to be left to the marketplace. I would suggest that energy is too important to be left to government hands. And if we are going to argue, as Congressman Miller does

in his submitted testimony or submitted statement, that we need to have departments to reflect how important a certain matter might be to the government, then why not a Department of Computer Software, why not a Department of Moral Values? Does not having those departments imply that somehow we give them less weight than we might otherwise give them?

Second, the Department is necessary, according to some, if an energy crisis were to occur, and we needed to have a response capability. Let me remind you, the response capability of the Department of Energy has been uniformly poor. In 1973, during their first oil crisis, there was a constriction of international oil supply of but 3 percent, and we had incredible dislocations, gas prices, rationing, and whatnot. It is forgotten that in 1990, international supply was constricted by almost double that without any of those impacts, largely because we allowed the market to work 5 years ago; 19 years ago, we did not do so.

And third, in the words of Jimmy Carter, the Department of Energy is necessary "to alleviate the consequences of the inevitable shortages of oil and gas supplies." Well, 20 years later, we know that those predictions were completely false.

DOE, in 1980, for example, predicted a $45 barrel of oil today. We haven't seen that. Any sort of analysis of price, supply, potential reserve or what have you shows that energy supplies have been growing more abundant, not more scarce; and that is confirmed by any way you want to look at the data.

Briefly let me summarize my proposals specifically for the Department of Energy. They can briefly be explained by saying that any nondefense-oriented undertaking of the Department of Energy should be summarily eliminated, zeroed out, and the defense-related operations of the Department given to the Department of Defense.

When Secretary O'Leary came before this committee this morning and suggested that there was no money savings potential in the Department of Energy budget. I can't disagree more strongly. What my plan would do, I submit, is to save about $10 billion a year once it had been fully implemented and garner, conservatively, $25 billion in asset sales. Those are triple the savings sponsored by Ms. O'Leary.

I do propose consolidating defense-related activities with the Department of Defense. There are four good reasons for this. First of all, for accounting, it is important that the American people know that whatever the Department of Defense budget is, that is what we are spending on defense, those numbers should not be scattered throughout the budget.

Second, it does increase coordination between producers and customers to have those operations in the same department.

Third, I would recommend that the new sub-Cabinet agency, the National Nuclear Weapons Administration, as I propose to call it, renegotiate their cleanup protocols for Federal facilities, undertaking cleanup by simply emphasizing neutralization of risk rather than making sure Rocky Flats can support a housing development in some future, safely. Most analysts predict we could save about 50 percent on cleanup costs.

I also recommend corporatizing the national labs. Ms. O'Leary, in her testimony this morning, noted with enthusiasm adoption of the Gavin Commission report recommendations. Well, she forgot to mention the most important thing about the Gavin Commission report. They recommended as much corporatization as is politically possible, as much as possible.

What I would recommend we do, except for the three defense labs, Sandia, Los Alamos and Lawrence Livermore, is to hand management of those labs over to the management contractors we currently have in the budget, simply turn the labs over to the fee simple. The U.S. Government retains responsibility for cleanup and we allow them to operate as they go. This—I could spend a lot of time talking about it, but I would simply recommend going through the Gavin Commission report, which is generally a big, giant case for exactly that sort of undertaking.

Fourth, research and development: Again, when we talk about research and development, we always obsess about various market failures—people don't have 30-year time horizons in the private sector and whatnot; not enough capital is out there—as if the Federal Government has 30-year time horizons or as if their capital supplies are endless.

When we talk about market failure, we have to realistically discuss government failure because postulating perfect markets is no more realistic than postulating perfect governments, and market failure concerns are riddled in the energy research and development area.

Private individuals are driven by personal profits, as we all know, but we also know that public officials are driven by incentives to maximize budgets, to expand regulatory power, and to ensure job security.

Funding is predicated in these areas on political muscle, not scientific merit. As Senator Bill Proxmire, one of my favorite Democrats, once observed, "Money will go where the political power is." Anyone who seriously thinks government funds will be allocated to firms according to merit has not lived long in Washington or served here very long.

I would also like to note that Hazel O'Leary, in her testimony this morning, talked about the high-risk energy portfolio that DOE invests in. It is. It is a very high-risk energy portfolio. We should not be surprised when these high-risk investments don't always pan out.

Let me also suggest that if an investment is high risk, it is not a market failure because the private sector decided not to invest in it. The academic literature on this issue is overwhelming on this matter. Professor Roger Knoll and Linda Cohen observed in a Brookings Institute book, The Technological Pork Barrel, the following: "The overriding lessons from the case studies is the goal of economic efficiency to cure market failures is so severely constrained by political forces that their effective coherent, national, commercial R&D program has never been put in place." And we submit to you it never will.

I recommend selling the assets of the PMA's to the highest bidder, no preferences, no nothing. There are three good reasons for this. One, the mission of PMA's is obsolete. They are predicated

upon the idea that public power can be provided cheaper than private power; and second, that rural America will not be served by investor-owned utilities. That can't pass the straight-face test today. If the mission is no longer relevant, the agency no longer is either.

There is this idea that somehow PMA subsidize the consumers with low energy costs. That is not true. They are sold power at between 1 and 3 cents per kilowatt hour by the public generation facilities, but according to the Energy Information Administration of DOE, they resell that energy at typical market prices of between 4 and 9 cents a kilowatt hour. The subsidy recipient is not the retail consumer. The subsidy recipient is the rural electrical cooperative, the municipal facility.

It is true, as Congressman Brownback mentioned, that Poland, Hungary, Spain, Italy, Argentina and Peru are all privatizing power grids. We allocate $400 million a year in our foreign aid budgets to advocate these programs. We should take our own advice.

There are other matters which I would love to get to in the questions and answers. Obviously, it is difficult to cover all the issues, but I will wrap it up there and suggest just one thing.

The Department of Energy is generally the vehicle by which we hand out corporate welfare checks. It does not surprise me for a second—the National Association of Manufacturers, for example, considers it in the Federal interest to have the American taxpayer foot the bill for McDonald's McNugget research or advertising or marketing efforts. Most of the industrial audience you have in front of you today would argue, not surprisingly, that the public taxpayer ought to foot the bill for research and development, for marketing and whatnot. Let me say to you that I don't think that is in the interest of the American people; I don't think that is consistent with November's result.

Thank you very much.

Mr. HORN. We thank you.

[The prepared statement of Mr. Taylor follows:]

PREPARED STATEMENT OF JERRY TAYLOR, DIRECTOR OF NATURAL RESOURCES STUDIES, CATO INSTITUTE

Mr. Chairman and members of the committee, thank you for inviting me to appear here today to offer my views on proposals to restructure the Department of Energy. In brief, I recommend that the Congress

- Eliminate the U.S. Department of Energy;
- Create the National Nuclear Weapons Agency (NNWA) under the direction of a sub-cabinet civilian official to supervise the nuclear weapons program, civilian radioactive waste, and weapons cleanup undertakings. The NNWA should operate as an independent subcabinet agency under the budget and weapons program review of the U.S. Department of Defense (DOD);
- Renegotiate nuclear weapons cleanup programs assumed by the NNWA to reflect prioritization of containment and neutralization of risk rather than removal and return of sites to pristine conditions;
- Privatize all laboratories managed by DOE save for two of the three weapons laboratories;
- Eliminate the direct funding for all research and development programs overseen by DOE;
- Sell all of the assets held by the Power Marketing Administrations to the highest bidder;
- Sell the Strategic Petroleum Reserve, the Naval Petroleum Reserve, and all oil shale reserves;

- Eliminate all energy conservation and renewable fuel subsidies;
- Eliminate the Energy Information Administration, the Energy Regulatory Administration, the Home Weatherization Program, and all university and science education programs managed by DOE.

A back-of-the-envelope calculation finds that the above agenda would, when fully carried out, lead to annual savings of approximately $10 billion and a one-time gain of approximately $25 billion through asset sales that could be used to reduce the national debt.

THE DEPARTMENT OF ENERGY IN BRIEF

The DOE is a large department by any measure. It employs 20,000 federal bureaucrats and has a budget of $17.5 billion per year. Another 150,000 workers are employed at DOE's national laboratories, cleanup sites, and other facilities.

The department is actually more of a "bomb factory" than anything else. Fully 67 percent of its budget—$11.7 billion—is directed at nuclear weapon or nuclear cleanup activities. Less than 17 percent of its budget—$3.1 billion—is actually related to energy activities. The remaining 15 percent of its budget—$2.7 billion—is devoted to general scientific research.

Even so, DOE's management of the power marketing administrations, uranium enrichment activities, and oil and gas holdings provides total revenues of $5.3 billion to the federal government ($1.5 billion in net "profits"). If DOE's nondefense activities were transferred to a private corporation, that corporation would number 177 on the Forbes list of the 500 largest corporations in America.

DOE's current mission statement, drafted during two meetings in 1994 involving more than 90 people, is "In partnership with customers," to:

- "contribute to the nation's welfare";
- "provide technical information & scientific & educational foundation";
- "achieve efficiency in energy, diversity in energy sources, and a more productive and competitive economy";
- "improve environmental quality"; and to
- "secure national defense."

As noted by reporter Timothy Noah of The Wall Street Journal, the above statement "speaks eloquently, if inadvertently, of the agency's peculiarly mismatched goals, many of which overlap with those of other federal agencies."[1]

It in order to safeguard the future of the nation, this Congress must cut $200 billion of annual federal appropriations. When examining federal programs for elimination, the most important questions that should be asked are, in descending order of importance:

- Is the program in question a constitutional exercise of government authority?
- Can the objectives of the program in question be met by nongovernmental entities? In other words, if a particular program were eliminated, would-market actors prove capable of achieving that program's goals without government assistance?
- Is the program's original mission obsolete or still relevant?
- Does the program's societal benefits exceed its record of societal costs?

While the latter two questions will be addressed directly for each program below, the former tests are certainly applicable for the Department as a whole.

Constitutional Questions

As was the Supreme Court recently affirmed in *United States* vs. *Lopez*, the Constitution establishes a federal government of enumerated and thus limited powers. Nowhere in the Constitution is the government expressly or even implicitly authorized to "provide technical information" or to "achieve energy efficiency or diversity." More generally, as the Lopez decision made clear, the Constitution establishes general federal police power. Apart from the explicit power of the federal government over federal territory, therefore, any police power there may be to regulate environmental affairs belongs to the states, as the 10th Amendment indicates.

A strict and proper reading of the Constitution thus draws into question much of DOE's mission. The traditional arguments used to justify those undertakings is hardly tenable. The General Welfare clause is not properly construed as allowing government to do anything it likes as long as a majority of Congress thinks it "good." Otherwise, the Founders would hardly have bothered writing a Constitution of enumerated powers in the first place. As Madison, Jefferson, and others made

[1] Timothy Noah, "So, What Do People At Energy Department Do All Day Long?" The Wall Street Journal, December 15, 1994, p. A1.

clear, the General Welfare Clause was meant to constrain the exercise of enumerated powers, not to be itself the source of some general power to spend for the general welfare.[2] The Commerce Clause, likewise, was meant to empower the federal government to preempt state protectionism and little more.[3] The tortured legal acrobatics that were employed to defend the federal law against firearms in the proximity of local schools (acrobatics that defy common sense even according to the Washington Post and were explicitly rejected in Lopez) are no more convincing than the tortured justification for energy efficiency investments, federal petroleum fields, electricity generations facilities, or research and development programs.

Program necessity

DOE's energy mission is completely unnecessary given that most of its objectives are not only met in the marketplace but can be better met by private parties. Technical, economic, and scientific information, for instance, is routinely generated and distributed by private agents (usually far more accurately as well—recall DOE's estimate in 1980 that oil would cost $41 per barrel in 1979 dollars by 1990, more than triple today's price[4]). No one can seriously argue that, were it not for the DOE, the energy industry would be flying blind in the marketplace. Nor can anyone seriously argue that, were it not for government subsidy, private corporations would cease to invest in technological research.

Market actors also have every incentive to use energy as efficiently as possible—does anybody seriously contend that government bureaucrats know better than businessmen or consumers how to do anything more efficiently?

The proper mix of energy sources is best determined by entrepreneurs directed by market prices. Government's attempt at "diversifying" energy sources led it in the past, for example, to ban natural gas for electricity generation in 1978 on the theory that it was too scarce (although now it is generally deemed by the very same government to be the energy choice of the future), the boondoggle Synfuels program, and quixotic advocacy of extremely expensive and operationally unreliable renewable fuels.

Finally, "productive and competitive economies" are the creation of free markets, not government bureaucracies, and environmental and defense undertakings are best managed by environmental and/or defense agencies, not energy departments.

Energy is no different from any other commodity in the marketplace. Energy production and distribution is better directed by market forces than by government planners and bureaucrats. There is no more reason for a Department of Energy than there is for a Department of Automobiles.

The existence of DOE is generally defended, however, on the grounds that (1) energy is far too important to the economy not to be managed somehow by government agents, (2) the Department is necessary in the event that some new energy crisis were to occur, and (3) that the Department is necessary (in the words of President Jimmy Carter), "to alleviate the consequences of the inevitable shortages of oil and gas and other energy supplies."

Regarding the first argument, the more important an industry, the more important it is to keep it in the hands of the free market. It is simply unreasonable in light of the economic events of the last century to believe that government is better able to "manage" markets than are the millions of individual actors in the marketplace. Moreover, if an industry's importance to the nation were to qualify it for a seat at the cabinet table, then one could similarly argue that there ought to be a Telecommunications Department, a Computer Software Department, an Entertainment Department, or a Department of Moral Values.

Popular opinion to the contrary, the impact of energy on the economy is generally overstated. Oil purchases, for example, account for only 2 percent of GNP. Recent macroeconomic analysis finds that the 1974 energy crisis, by means of perspective, only led to a 0.35 percent reduction in Gross National Product during the recession.[5]

Regarding the second argument, the federal government has repeatedly mangled the job of managing energy crisis. For example, the gasoline lines and shortages of 1974 and 1979 were caused not by shortages (global supplies were only reduced by 3 percent and 6 percent respectively) but by wage and price controls adopted in 1972 and the 1975 Petroleum Allocation Act. When the 1990 Kuwait crisis arose, global

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[2] Roger Pilon, "Freedom, Responsibility, and the Constitution: On Recovering Our Founding Principles," Notre Dame Law Review, Vol. 68, No. 3, 1993, pp. 530-533.

[3] Ibid., pp. 533-538. See also Richard Epstein, "The Proper Scope of the Commerce Power," Virginia Law Review, Vol. 73, 1987.

[4] Michael McKenna, "Power Failure: Let's Pull the Plug on Federal Energy Programs," Policy Review, Winter 1994, p. 84.

[5] Douglas Bohi, "Thinking Through Energy Security Issues," The American Enterprise, September/October, 1991, p. 34.

supplies were initially cut by 5 percent but, without such federal meddling, prices stabilized and no shortages occurred.[6]

In the event of a new energy crisis, the Congress would be best advised to manage energy supply, demand, and fuel diversity by allowing prices to freely guide the invisible hand of the marketplace. Government planners simply do not have a very good track record when it comes to the centralized allocation of resources. Indeed, maintaining a cabinet-level energy department is risky given that it provides a ready structure for the reintroduction of federal energy market interventions and a perfect command post for some future "Energy Czar" to once again punish energy producers and consumers.

Finally, there is no logical reason why increased energy scarcity (note, however, that energy supplies—whether measured by proven reserves, ultimately recoverable stock, or by price trends—have been increasing, not decreasing[7]) should lead us to abandon the free market and turn to government resource planning. Markets may theoretically fail here or there, but the academic literature on the subject clearly establishes that markets excel at efficiently distributing scarce resources.[8] That phenomenon is compounded in the energy market by the existence of the OPEC semi-cartel ("semi" because the OPEC cartel is not a particularly effective monopoly[9]). In OPEC nations, where production costs are far below market price and depletion effects are small, underexploitation of reserves is the norm given their desire to monopolize. Thus, existing energy markets are clearly characterized by, if anything, overcompensation—not undercompensation—for energy scarcity.

The above views might be rare in Washington, but they are orthodoxy among serious economists in academia. As noted by Dr. Robert Gordon, professor of Mineral Economics at Pennsylvania State University and recent recipient of the International Association of Energy Economists' Outstanding Contributions Award, "the dominant theme of academic writings is that governments have done more harm than good in energy," a view "almost universally supported by academic energy economists, whatever their political outlook."[10] Professor Colin Robinson, the British Institute of Energy Economics "1993 Energy Economist of the Year" and fellow of London's Institute of Economic Affairs, likewise observes that "public choice theorists and Chicago-school empirical researchers have so clearly demonstrated the serious problems inherent in government action that the traditional deus ex machine case which used to be made by old-style welfare economists (that government could always be brought in to set to rights the mess markets were making) is surely untenable."[11] And America's dean of energy economics, Morris Adelman of the Massachusetts Institute of Technology, has long held that the federal government should get out of the energy business.

THE MILITARY/INDUSTRIAL COMPLEX

Nuclear weapons production, maintenance and cleanup programs account for the bulk of DOE spending. The former obligation—$4.5 billion annually or 26 percent of the Department's budget—was historically separated from the Department of Defense out of concern for independent civilian control of nuclear weapons production. The latter obligation—$7.2 billion annually or 41 percent of the entire Department's budget—largely stemmed from the mismanagement of the former. The national laboratories, the progeny of the Manhattan Project, were originally dedicated to nuclear weapons research, testing, and development, although other labs were put into place up until 1977 to specialize in various research and development activities.

Although the stockpile maintenance and cleanup operations certainly need to be continued, the agency responsible for those activities hardly needs to sit at the President's cabinet table. Nor is it there any compelling reason for those activities to be under the administrative umbrella of an "energy" department, since "energy" has virtually nothing to do with either administrative function.

It makes far more administrative sense for those activities to be assumed by the Department of Defense. A National Nuclear Weapons Agency (NNWA) should thus

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[6] Robert L. Bradley, "What Now For U.S. Energy Policy? A Free Market Perspective," Policy Analysis no. 145, Cato Institute, January 29, 1991, p. 2.

[7] See generally Stephen Moore, "The Coming Age of Abundance," The True State of the Planet, Ronald Bailey, ed. (New York: Free Press), 1995, pp. 109-139.

[8] For a review of the literature, see Richard L. Gordon, An Economic Analysis of World Energy Problems (Cambridge, MA: MIT Press), 1981.

[9] See generally Morris Adelman, "Oil Fallacies," Foreign Policy, Spring 1991.

[10] Robert L. Gordon, "IAEE Convention Speech: Energy, Exhaustion, Environmentalism, and Etatism," The Energy Journal, Vol. 15 No. 1, 1994, c. 2.

[11] Colin Robinson, Energy Policy: Errors, Illusions, and Market Realities, Occasional Paper No. 90 (London: Institute of Economic Affairs) 1993, p. 50.

be established under the direction of a sub-cabinet civilian official at DOD to supervise the nuclear weapons program and related cleanup undertakings. The weapons-related activities of Los Alamo, Lawrence Livermore, and Sandia should be reduced to reflect post-cold war realities and consolidated within two of the three aforementioned national laboratories and placed under the direction of the NNWA.

Turning the weapons-related programming over to DOD makes sense for a number of reasons:

- defense-related activities belong to the agency and budget responsible for national defense;
- submerging those programs in an existing Department helps protect against bureaucratic "mission creep" as was the case at the old Atomic Energy Commission, the predecessor to DOE;
- merging those weapons producers with the weapons customers help ensure coordination of national strategy; and
- such an administrative structure more honestly tells the American people exactly how much we are paying for our national defense instead of scattering such expenditures throughout the budget.

Some will undoubtedly decry giving DOD authority over the nuclear weapons program out of concern for civilian control of such weapons of mass destruction. Yet DOD itself must have a civilian secretary and the NNWA should likewise be required to have a civilian secretary. Although such concerns are understandable, the military is already theoretically capable of marshalling operational warheads currently in missile silos, nuclear submarines, and long range strategic bombers. Compared to those tools, authority over weapons design, engineering, and stockpile maintenance seems rather benign.

Environmental Cleanup

Nuclear weapons facilities such as Rocky Flats, Colorado and Hanford, Washington, are among the most contaminated environmental sites in America and are expected to take 30 years or more to remediate. Current cleanup standards negotiated by DOE with state and local communities establish rigorous protocols based on the federal Superfund statute that are aimed at returning sites to near pristine conditions. The U.S. General Accounting Office believes that "the effort to clean up federal hazardous waste sites is likely to be among the costliest public works projects attempted by government."[12] Estimates of the ultimate cost of such cleanups vary dramatically, but even the most conservative estimate of $200 billion rivals the Savings & Loan bailout. Others peg ultimate cleanup costs as high as $1 trillion.[13]

While cleaning up those sites is certainly a federal responsibility, there are two fundamental problems with DOE's cleanup effort. First, the Department's environmental remediation projects are hamstrung by gross administrative inefficiencies. Similar private section remediation projects cost 32 percent less and 18-50 percent less time to complete, while other government agencies undertake equivalent cleanup projects at 15 percent less the final costs incurred by DOE.[14] One of the reasons for the cost differential, according to the Congressional Budget Office, is that "at least 40 percent of the cleanup program's funds are devoted to administrative and support activities, a level that many reviewers have considered excessive . . . [they] represent a proportion that is significantly higher than the share spent by some other government agencies that may be forming similar tasks."[15]

Second, the cleanup standards adopted by the Department are unachievable and thus inordinantly costly. Although this is widely understood in the scientific community, the point was perhaps best made in a report issued three months ago by an advisory board appointed by DOE to study the National Laboratories:

> Probably the most important reason behind the slow pace of assessment and cleanup is the low quality of science and technology that is being applied in the field. Many of the methods, such as "pump and treat" for contaminated groundwater remediation, cannot provide the claimed benefits. There is a lack of realization that many—and most experts believe most—

[12] Federal Facilities: Agencies Slow to Define the Scope and Cost of Hazardous Waste Site Cleanups, U.S. General Accounting Office, RCED-94-73, June 1994.

[13] Russel, Colglazier, and English, "Hazardous Waste Remediation: The Task Ahead," Hazardous Waste Remediation Project, Waste Management Research and Education Institute, University of Tennessee, December 1991, pp. 14-15.

[14] "Project Performance Study," Office of Environmental Restoration and Waste Management, U.S. Department of Energy, EM-20, January 1994.

[15] "Cleaning Up the Department of Energy's Nuclear Waste Complex," Congressional Budget Office, May 1994.

> existing remediation approaches are doomed to technical failure. Others would require unacceptable expenditures and much extended time to reach their stated objectives.[16]

Nuclear weapons cleanup programs assumed by the NNWA should be renegotiated to reflect prioritization of containment and neutralization of risk rather than removal and return of sites to pristine conditions. In fact, most of the cost associated with DOE cleanups stems from the fact that an attempt is being made to ensure that future residential use of a site like Rocky Flats would pose no risk whatsoever. Simply protecting adjacent landowners from exposure to risks from a site would just as effectively prevent human health risks and do so in a far less costly manner. Most environmental engineers believe that such a change in cleanup protocols on federal sites would cut total remediation costs by at least 50 percent.[17]

The fact of the matter is that current standards for cleanup of nuclear sites negotiated by DOE are, even is desirable, untenable both economically and politically. Unless those agreements are renegotiated, sites will simply remain undealt with given the budgetary restrictions upon the Congress. Moving to a standard of risk neutralization allows far more sites to be cleaned up and correspondingly speedier health protection for the general public.

Finally, the director of the NNWA should be empowered to negotiate pilot remediation programs such as community cleanup partnerships and clutch auctions with private parties. Such auctions entail the federal government asking private companies to bid on how much money the government would have to pay them to assume title and liability for contaminated federal land. Companies would base their bids on how cost effectively they could neutralize a site's risk to others, the amount of liability insurance necessary for protection in courts, and an appropriate profit margin for their efforts. In short, such a system would harness the creativity and inventiveness of the private sector while still holding them liable for harm. Moreover, clutch auctions would, in all likelihood, dramatically speed the cleanup efforts at hundreds of sites.

National Laboratories

DOE maintains 10 major laboratories and 18 minor laboratories with a joint annual budget of $6 billion and a 50,000 employee payroll. Although funded by the federal government, most are managed by private corporations or universities. The national laboratories today are no longer focussed exclusively on weapons programming, but have instead branched out to include environmental, commercial, and various other research activities now that the cold war is over. For example, 40 years ago, 90 percent of Lawrence Livermore's budget was devoted to defense activities. Today, only 40 percent of their budget is so targeted.[18]

The most compelling analysis yet presented regarding the national laboratories is found in the February, 1995 Galvin Report, the product of a distinguished corporate/academic task force appointed by the Secretary of Energy. Although the Report was more inclined to support certain federal research and development activities than was warranted (more on this later), it trumpeted "one critical finding" as "so much more fundamental than we anticipated that we could not in good conscience ignore it. The principle behind that finding is: government ownership and operation of these laboratories does not work well.[19] The prescription?

> The principle organizational recommendation of this Task Force is that the laboratories be as close to corporatized as is imaginable. We are convinced that simply fine tuning a policy or a mission, a project, or certain administrative functions will produce minimal benefits at best.[20]

Accordingly, the Congress should turn over each laboratory fee simple to the management agent currently contracted by the federal government to operate the facility. That agent would then retain full ownership rights to the laboratory and be free to operate it as they wish, contracting with public and private entities in the free market. The federal government would retain liability over any environmental contamination at the site and would be responsible—through the NNWA—for remediating any environmental contamination that threatened public health. As noted by the Galvin Report:

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[16] "Alternative Futures for the Department of Energy National Laboratories, Task Force on Alternative Futures for the Department of Energy National Laboratories," Secretary of Energy Advisory Board, February 1995, p. 30.

[17] "Hazardous Waste Remediation: The Task Ahead," pg. 16, 19.

[18] Ibid., p. 59.

[19] Ibid., p. 53.

[20] Ibid., p. 55.

> We suggest that the country must try one or more concepts that are radically new in order to revitalize the laboratories and to achieve significant improvements. If some parts of a bold solution were to prove to be not as beneficial as this Task Force is confident that they would be, that unto itself should not be a matter of concern. The laboratories and the country would still be better off than they otherwise will be from the continued repetition of federal governing policies.[21]

Indeed, the bill of particulars presented in the Report are can be boiled down to the finding that "The national laboratory system is oversized for its current mission assignments. This appears to be the result of inefficiencies that stem from the current management practices of the laboratories and the DOE; excess capacity in areas associated with nuclear weapons design and development; and political considerations which have inhibited downsizing and laboratory restructuring.[22] The Report further remarked that "Numerous instances of poor DOE regulatory and management practices have come to the attention of all members of the Task Force during its investigation of the national laboratories. The system has been tried long enough; the evidence is in."[23]

The vision offered for the labs by the Galvin Report makes sense. "The government should be the customer of the laboratories," says the Report. "World-class commercial customers do not tell their suppliers how to do things. They simply buy a result for a given price. World-class commercial suppliers are not audited by their customers."[24]

Even if the same level of public research and development funding is directed through the labs after privatization, the Galvin Report conservatively estimates that 20 percent of current expenditures—$1.2 billion annually—could be saved through reorganization.[25]

The Galvin Report, of course, is not the first such warning about the deteriorating state of the national labs. A long line of U.S. General Accounting Office and Congressional Budget Office reports have similarly concluded that the labs are largely a program in search of a rationale, having lacked for years a coherent or definable mission and suffering greatly from inept management from DOE.[26] Even Dr. Eric Bloch, former director of the National Science Foundation and currently a fellow at the Council on Competitiveness, agrees that, while much of their research is needed, federal ownership of the labs leads to mismanagement, politicization, and scientific atrophy.[27]

RESEARCH AND DEVELOPMENT

DOE is one of the premier research and development agency in the federal government. Approximately $5.8 billion was spent by the DOE on research and development in 1995: $3.2 billion for "applied" energy supply research and development; $1.4 billion for "basic" science research and development (generally high energy and nuclear physics), $490 million for energy conservation research and development; $430 million for fossil energy research and development; and $288 million for the Clean Coal Technology Program. A large chunk of that funding is appropriated in the form of grants and partnerships with private industry in a wide range of industrial areas. Most of it is funnelled through the national laboratory system where the actual work is performed.

It should be noted that the Constitution grants Congress the power to "promote the progress of science and useful arts," but expressly detailed in Article I, Section 8, the means by which it may do so—"by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries."

Nevertheless, over the past four decades the federal government has pored $17 billion into general nondefense nuclear science and $63 billion into general energy research and development.[28] "Priority for federal funding of R&D," observes Dr. Maxine Savitz, "has been given to projects where the risks are so great (but potential awards are so great), the time for commercialization is so long, or potential re-

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[21] Ibid., p. 54.
[22] Ibid., p. 10.
[23] Ibid., p. 53.
[24] Ibid., p. 55.
[25] Ibid., p. 57.
[26] See, for example, "National Laboratories Need Clearer Missions and Better Management," U.S. General Accounting Office, GAO/RCED-95-10, January, 1995.
[27] Comments, "What is the Appropriate Federal Role in Industrial R&D?" forum sponsored by the Institute for Alternative Futures, April 12, 1995.
[28] "Historical Tables," Budget of the Unites States Government, FY 1996 (Washington: U.S. Government Printing Office) 1995, pp. 135-140.

turns based on present energy price are so low that private investment alone cannot rationally be expected to be adequate.[29] DOE further justifies those expenditures on the basis that:

> Private firms are finding it increasingly difficult to recoup their R&D costs by appropriating exclusively to themselves the true benefits of the R&D. In today's highly competitive global market, technical secrets are short-lived and too easily stolen, scientists are hired away, and inventions are slightly modified in order to circumvent intellectual property rights. More fundamentally, the R&D itself is often too challenging, requiring large interdisciplinary teams of scientists, working year after year on expensive and unique laboratory equipment. Finally, the structure of certain industries is often to fragmented, or the firms to small, to mount the sustained R&D campaign necessary for success.[30]

Recently, Energy Secretary Hazel O'Leary has further argued that federal energy research and development is crucial for America's international competitiveness. "All of the U.S.'s competitors have industrial policies," she told House Appropriations Committee on January 19, 1995. "If the U.S. is to remain competitive, it too must have an industrial policy. This can be done either through a direct investment policy or a taxing policy . . . The government must aid the private sector in using jointly developed technologies to capture these markets." After noting that other nations support energy research and development, she asked, "Do we permit some other nation to beat us?"[31]

In essence, the charge is that, in the field of research and development anyway, we find significant, systemic, and fundamental market failure. Although some of the above observations have some merit, many do not. For example, when markets find that a particular research activity involves high risk and minimal return due to low energy prices, the market does not "fail" by not investing in the project; it operates rationally. The fact that employees are free agents who can sell their services to the highest or most satisfactory bidder likewise is not a market failure. If it were, it would be a wonder that the market could operate at all. Complex, long range undertakings are routinely accomplished by the private sector in every other industrial endeavor and are certainly not beyond the capability of universities or even Corporate America. Finally, small companies in fragmented industries are not necessarily disadvantaged in the race for new technologies and developments. In fact, most analysts recognize that it is precisely those firms that produce the most valuable new technologies and radical ideas that advance the march of science. Moreover, joint ventures and industrial research consortiums are certainly capable of overcoming the problem where it might exist.

The proper comparison, however, is not between an imperfect market and a theoretically perfect government, since postulating textbook perfection on the part of government agents is just as unrealistic as doing so for market actors. The proper comparison is between market failure and government failure. And in order to bring the R&D debate back to reality, there are several "government failures" which we might note.

First, many of the imperfections noted by DOE in the private sector apply as much if not more so to federal R&D. Long term government projects are difficult to sustain politically given the short time horizons of legislators forced to face constant elections and thus quick results. Government finds that doing even simple thinks like growing crops and delivering mail a constant challenge. It's record at accomplishing complex tasks is even more spotty, as the record of NASA, the Strategic Defense Initiative, and various large-scale projects like the Clinch River Breeder Reactor and the Superconducting Supercollider can attest. Federal employees and contractors are scarcely the indentured servants DOE implies are necessary to make a market run efficiently. Governmental undertakings are also plagued by duplication, fragmentation, contradictory efforts, and lack of coordination to say the least. And finally, the technological "breakthroughs" achieved in any single nation are quickly spread throughout the globe just as those breakthroughs can quickly be spread from one corporate competitor to another. "Beating" the Japanese to new solar technology applications, for example, would mean little when Japanese indus-

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[29] Maxine Savitz, "The Federal Role in Conservation Research and Development," The Politics of Energy Research and Development, John Byrne and Daniel Rich, eds. (New Brunswick, NJ: Transaction Books) 1986, p. 92.

[30] "Success Stories: The Energy Mission in the Marketplace," U.S. Department of Energy, April 1995, p. 1.

[31] Hazel O'Leary, testimony before the House Appropriations Committee's Subcommittee on Energy and Water Development, January 19, 1995.

try has demonstrated time and again its ability to be first in bringing to market technological breakthroughs achieved elsewhere.

Second, private actors are motivated by the pursuit of profit and are thus constantly driven to efficiently meet the demands of consumers. Public officials, as noted by nobel laureate James Buchanan—founder of the "public choice" school of political economics—are driven by an entirely different set of incentives; budget maximization, expansion of regulatory power, job security, etc.[32] As noted by Milton Friedman, "People who intend to serve only the public interest are led by an invisible hand to serve private interests which was no part of their intention."[33]

This is because government tends to decide which industries, technologies, and projects to support on the basis of political—not economic or scientific—considerations. Older, more labor-intensive companies typically exercise the most clout. New and growing firms—the kind that typically produce the most technological breakthroughs—may be economically strong but are usually politically weak. And as former Senator William Proxmire once remarked, "Money will go where the political power is. Anyone who thinks government funds will be allocated to firms according to merit has not lived or served in Washington very long."[34]

Third, the idea that basic science (supposedly underinvested in by the private sector and corrected by federal appropriations) is a major catalyst in industrial innovation is simply outdated. Rather, as John Deutch of M.I.T. explains, "The potential contribution of the national laboratories to improve the competitiveness of U.S. commercial industry is oversold. The principle barriers to improving industrial productivity in U.S. industry are not due to our inability to generate new technology, but rather to our inability to apply existing technology and to produce quality products."[35]

Fourth, as noted by the Galvin Report:

> To be effective, near-term R&D work must take place in an environment rich in interactions with users and customers. Market-based influence, direction, and control are critical to success . . . The more distant the laboratories are from the marketplace, the more remote the likelihood that they will have something useful to contribute to such activities."[36]

Clearly, Congressional appropriators or bureaucratic servants, isolated as they are from the marketplace and the incredibly detailed and varied knowledge held by millions of private agents, are incapable of intelligently directing societal resources.[37]

Finally, the portfolio of federal energy R&D investments is directed, according to the DOE, at supporting "high-risk, precompetitive research," which results in a "high-risk portfolio of capital investments in the Nation's future.[38] It should not surprise us when government's "high-risk capital investments" don't pan out—they are, after all, risky by definition. Government officials, however, are not as worried about losing the money of their stockholders—taxpayers—as is Corporate America.

The likelihood of systemic "government" failure in the realm of energy research and development is not simply a matter of theory. It is a clear matter of record.

Perhaps the most serious examination of federal R&D programs—conducted for the Brookings Institution by economists Linda Cohen of the University of California at Irvine and Roger Noll of Stanford University—found that energy R&D has been an abject failure and nothing but a pork barrel for political gain. "The overriding lesson from the case studies is that the goal of economic efficiency—to cure market failures in privately sponsored commercial innovation—is so severely constrained by political forces that an effective, coherent national commercial R&D program has never been put in place."[39]

Other dispassionate observers note that, despite the occasional R&D success, DOE energy research expenditures fail to pay for themselves. Simply put, if the energy research and development investments made by the DOE were made by a private

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[32] Geoffrey Brennan and James Buchanan, The Reason of Rules (Cambridge MA: Cambridge University Press) 1985, and Public Choice and Constitutional Economics, James Gwartney and Richard Wagner, eds. (Greenwich, CT: JAI Press/Cato Institute) 1988.

[33] Milton Friedman, Why Government is the Problem (Stanford, CA: Hoover Institution) 1993, p. 11.

[34] Murray Weidenbaum, "A New Technology Policy for the United States?" Regulation, vol. 16, no. 4, Fall 1993, p. 19.

[35] Margaret Kriz, "Fuels Errand?" National Journal, October 17, 1992, p. 2355.

[36] "Alternative Futures for the Department of Energy National Laboratories," p. 47.

[37] See generally Israel Kirzner, Discovery and the Capitalist Process (Chicago: University of Chicago Press) 1985.

[38] "Success Stories: The Energy Mission in the Marketplace," p. 3.

[39] Linda Cohen and Roger Noll, The Technology Pork Barrel (Washington: The Brookings Institution) 1991, p. 378.

corporation, that company would have gone bankrupt long ago. Given the dramatic sums invested in energy R&D over the past four decades, the government has little to show for its effort save for light water nuclear reactor technology, and even that breakthrough has yet to show significant commercial gain.

Although a small success here or there can obviously be demonstrated, the commercial returns on the $80 billion spent in the last 40 years don't even come close to matching the sums allocated. As the Galvin Commission reported:

> The Task Force learned of significant examples of laboratory-developed technology being usefully transferred into industry and of the laboratories providing useful technical services to industry. However, the laboratories are not now, nor will they become, cornucopias of relevant technology for a broad range of industries. A significant fraction of the laboratories' industrial competitiveness activities concern technologies which are of less than primary importance to their industrial collaborators and/or which these partners could obtain from other sources. There are only a relatively few instances in which the laboratories have technology that is vital to industry and that is uniquely available at the laboratories . . . [such R&D investments] are unlikely to produce results that will benefit either the agency's industrial partners or the public in the long run . . . While there are instances of successful "by-product" R&D, the historical evidence demonstrates that such events are statistically improbable.[40]

Federal energy research and development expenditures should thus be immediately eliminated. Any research needs the government might have to accomplish otherwise constitutional ends—such as the cleanup of federal facilities—should be bid out to private sector entities under the direction of the newly created National Nuclear Weapons Agency at the Department of Defense.

POWER MARKETING ADMINISTRATIONS

In 1994, DOE sold $2.9 billion worth of electric power, a total of 8 percent of the nation's annual power production. The facilities that generate that power are mostly dams; Hoover, Grand Coulee, and 129 other smaller dams operated by the Army Corps of Engineers and the Bureau of Reclamation. DOE's five power marketing administrations—the agencies that deliver public power wholesale (with the exception of the Bonneville Power Administration, which also sells power retail) to publicly owned utilities and rural power cooperatives—are together as large as major private power companies. Baltimore Gas and Electric's sales last year, for example, were $2.8 billion, while Boston Edison's were $1.5 billion, about half those of power marketing administrations'.

The PMAs were originally justified on two premises; that monopoly electricity corporations would not find enough profit in electrifying rural America and thus government must step in and provide the power; and second, that government could provide power cheaper to consumers because it could do so "at cost" without worrying about a capital costs or profit margins. The former premise is now irrelevant. Rural America is thoroughly electrified and would remain so with or without the PMAs. Moreover, 60 percent of rural America is already served by investor-owned utilities.[41] The latter premise was a socialist chimera. Public electricity generation has proven to be far more costly than private power.[42]

The five power marketing administrations overseen by DOE vary in size and significance. Four of them are relatively small and are targeted for privatization by the Clinton administration:

- The Alaskan Power Administration (APA) delivers power from only two public power plants with a total capacity of 108 megawatts. APA supplies 8 percent of the market in the region served with annual power sales of only $9 million;
- The Southwestern Power Administration (SWPA) delivers power from 24 public power plants with a total capacity of 2,200 megawatts. SWPA supplies 4 percent of the market in the region served with annual power sales of $103 million;

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[40] "Alternative Futures for the Department of Energy National Laboratories," pg. 45, 47.

[41] "Utilities and Their Customers: The Rural/Urban Nature of Electric Utility Service Areas," National Council for Urban and Economic Development (Washington: Edison Electric Institute) July 1992, p. 2.

[42] See generally David L. Shapiro, Generating Failure: Public Power Policy in the Northwest, (Lanham, MD: University Press of America/Cato Institute) 1989, and Russell Klepper, "Federal Participation in the Electric Industry: A Review and Assessment of the Implications Upon Industry Restructuring," paper presented at the Cato Institute conference "New Horizons in Electric Power Deregulation," March 2, 1995.

• The Southeastern Power Administration (SEPA) delivers power from 22 public power plants with a total capacity of just over 3,000 megawatts. SEPA supplies 2 percent of the market in the region served with annual power sales of $155 million; and

• The Western Area Power Administration (WAPA) delivers power from 53 powerplants with a total capacity of over 10,000 megawatts. WAPA supplies 9 percent of the market in the region served with annual power sales of $758 million.

The granddaddy of them all, however, is the Bonneville Power Administration (BPA), which delivers energy from 30 public power plants with a total capacity of 22,000 megawatts. BPA supplies 65 percent of the market in the region served with annual power sales of $1.9 billion. The Clinton administration proposes to "corporatize" BPA along the lines of the Tennessee Valley Authority.

Defenders of the PMAs claim that they do not cost taxpayers money. In fact, they argue that PMAs provide an infusion of cash to the federal treasury and that any sale of those assets would mean a net loss to the taxpayer. That argument, however, is spurious on several grounds. First, PMAs generally operate free of local, state, and federal taxes, and the opportunity cost of maintaining public ownership in not figured into the previous calculations. Second, PMAs are not required to amortize their federal loans (received at below market interest rates in the first place at a cost of $1.2 billion to the treasury[43]) on schedule and can extend the term of repayment for years. Old debt with very low interest rates have thus been kept on the books for decades after it would have been normally amortized and paid in full by a private company. Third, PMAs sell power from 100 percent to 300 percent below the prevailing market price in the regions they serve, and that lost revenue—calculated at $2 billion by DOE—is also ignored in the above argument.[44] Fourth, the PMAs that report net revenues due so by not employing generally accepted accounting principles to depreciate their property. A brief review by Deloitte & Touche in January 1995 found that WAPA, for example, was not operating in the black as was claimed but actually lost $250 million in 1993 and $130 million in 1992. Finally, a congressional report titled "Taking the Taxpayer: Public Subsidies for Natural Resource Development" (known general as the "Miller Report") found that PMAs receive certain site-specific benefits and interagency subsidies that cost the U.S. taxpayer additional money not considered by proponents.

All five of the PMAs should be privatized by asset divestiture and sold to the highest bidder by an Asset Privatization Working Group under the management of the Treasury Department.[45] The divested assets should include the right to market power produced at federal facilities (without any price constraint) and the generation equipment associated with energy production at those facilities. The privatization of PMAs should grandfather in existing operating conditions at hydroelectric generating facilities including minimum flows from the dams and provide a "preference" to current customers that relieves them from current contract requirements if they so desire. Sale of the four PMAs proposed by the Clinton administration are estimated to bring in between $3.4 billion (according to the administration) and $9 billion (according to the EOP Group[46]) to the federal treasury, with Bonneville likely to bring in approximately $9 billion.[47]

It is occasionally argued that, however attractive selling the PMAs might be, there are no buyers for the administrations, that some PMAs like BPA have a negative net value, and no market exists for most of the public generation facilities that provide the power. Nothing could be further from the truth. PMAs are commercial businesses with marketable assets that could readily be sold. A variety of investors—including independent power producers, municipal utilities, investor-owned utilities—are already lobbying for the right to purchase PMA assets, prima facie evidence of a ready market. If power marketing rights were sold with the same restriction on wholesale prices, it might indeed be the case that selling the PMAs would bring in scant revenue to the treasury. Allowing power to be sold at market rates, however, increases the value of those assets tremendously. Finally, much of the debt

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[43] "Federal Energy Subsidies: Direct & Indirect Interventions in Energy Markets," Energy Information Administration, Office of Energy Markets and End Use, November 1992, p. 59.

[44] Ibid., p. 62.

[45] It would be appropriate that the proposed Working Group include representatives from the Bureau of Reclamation, the Army Corps of Engineers, the Department of Treasury, the Office of Management and Budget, and nongovernmental industry officials, investment bankers and economists.

[46] "PMA Value to Taxpayers and Customers," EOP Group (Washington: Edison Electric Institute), April 1995.

[47] Shapiro, p. 106.

at Bonneville is held not by the PMA but by the WHOOPS and would not greatly affect the value of Bonneville's assets.

Although there might not be a market for the largest federal dams, such as Hoover or Grand Coulee (although that remains to be seen), there are more than a hundred smaller dams that would find ready buyers. More than 2,000 hydropower facilities are owned by the private sector (compared to 172 facilities owned by the public) and 56 percent of the nation's hydropower is generated by private companies. Nor are those facilities necessarily small generators. The Conowing Dam, a 500 megawatt facility in Maryland's Susquhanna River, and the Brownlee Dam, a 585 megawatt facility on the Snake River, are both owned by non-federal power companies.

Indeed, current PMA customers complain that the Army Corps of Engineers and the Bureau of Reclamation are failing to maintain power facilities or upgrade them. Both organizations are under orders not to expand power facilities so that federal dollars can be used for other priorities. Sale of those facilities would mobilize private capital to fill this need.

The real argument against privatization, however, rests on the charge that selling public power at market rates would increase electricity bills and amount to a "hidden tax increase" on consumers. But even if true, the removal of a subsidy does not constitute a tax increase. Moreover, only 6 percent of America's consumers receive their power from federal facilities, so the number of power customers effected of any rate increase would be rather small.

Nonetheless, most retail customers of public power would experience no rate increases. The reason is that, even though public power is sold to intermediary wholesale purchasers at between 1 to 3 cents per kilowatt hour, those wholesalers (rural electric cooperatives and municipal utilities) typically resell that power to their customers at market rates—4 to 9 cents per kilowatt hour.[48] In other words, its not the retail customers of public power that receive the public subsidy; its the rural electric cooperatives and municipal utilities that receive the public windfall. Why those "non-profit" entities choose to mark-up their rates so dramatically is unclear. But privatizing the PMAs could easily be absorbed by those public enterprises without effecting rates. If rates increase regardless, it would be due to the inefficiencies of those public enterprises and not the act of privatization.

Even if wholesale price increases are passed on directly to customers of rural electric cooperatives and municipal utilities, The Edison Electric Institute estimates that rate impacts would be relatively minor:

- In the Southeastern Public Power Administration, 94 percent of public power customers would experience rates hikes from 0 to 5 percent while only 6 percent of the customer base would experience rate increases of between 5 and 10 percent.
- In the Southwestern Public Power Administration, 73 percent of public power customers would experience rates hikes from 0 to 5 percent; 17 percent would experience rate hikes of between 5 and 10 percent; 7 percent would experience rate hikes of between 10 and 20 percent; and only 3 percent would experience rate hikes of over 20 percent.
- In the Western Public Power Administration, 90 percent of public power customers would experience rates hikes from 0 to 5 percent; 8 percent would experience rate hikes of between 5 and 10 percent; and only 2 percent would experience rate hikes of between 10 and 20 percent.[49]

Continued subsidy of electricity prices does economic and environmental damage to those regions served by PMAs. Energy is but one input in the manufacturing process and, like capital or labor, can be substituted for other inputs. When energy prices are held artificially low, manufacturers are encouraged to substitute energy for other manufacturing inputs which can often have the effect of reducing job opportunities. Moreover, artificially low electricity prices lead to greater electricity consumption than would otherwise be the case, which correspondingly increases air and water emissions. Those who highly value energy conservation should also be reminded that maintaining energy subsidies is the surest way to promote excessive energy use.

Governments around the world are privatizing government operated power systems, including Poland, Hungary, Spain, Italy, Argentina, and Peru. In fact, the United States budgets $400 million annually to encourage other countries to adopt market based economic policies and to advance the privatization of industrial assets.

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[48] "Electric Sales and Revenue," Energy Information Administration, Office of Coal, Nuclear, Electric, and Alternate Fuels, 1993, p. 5.

[49] "PMA Value to Taxpayers and Customers."

It is indeed ironic that the U.S. refuses to take its own advice and has even made it illegal to study the question of power privatization on government time.[50]

FEDERAL ENERGY RESERVES

The federal government maintains a 591 million barrel Strategic Petroleum Reserve (SPR) of unrefined, generally high-sulfur crude oil in five caverns in Texas and Louisiana and a Naval Petroleum Reserve (NPR) consisting of major oil and natural gas fields in Buena Vista, California (the Elk Hills facility), Teapot Dome near Casper, Wyoming, and Naval Oil Shale Reserve Number 3 near Rifle Colorado.

The Naval Petroleum Reserve was originally set aside to ensure the navy a supply of oil as it converted its fleet from coal to oil before World War I. The fields went undeveloped through two world wars. During the energy crises of the 1970s, Congress decided the government should produce oil and gas at those fields and sell them on the commercial market. Today, NPR includes some of the largest oil fields in the lower 48 states, producing about 60,000 barrels of crude oil a day. Those commercial oil fields are managed by DOE with contractor support.

The Strategic Petroleum Reserve was established in 1975 to serve as an emergency source of petroleum. The SPR can be released by either by an administrative finding of a "severe energy supply disruption" or as a consequence of the mandatory energy-sharing program of the International Energy Agency. Although $21 billion has been spent to build and maintain the stock of unrefined, high-sulfur crude, the SPR has never been used to any significant extent. The SPR had 80 million barrels in the ground during the 1979 energy crisis, but there was no drawdown capability at the time. Although the government had an excellent but rare opportunity to recoup the cost of the reserve in the summer of 1990 during the Kuwait crisis, DOE held on to the reserve out of concern that the crisis could get worse before it got better. By the time prices came down and stabilized, DOE announced an extremely limited withdrawal of oil that was too late to positively affect either markets or consumer confidence.

The high sunken costs for the various SPR facilities will soon increase even further. The temperature of the sorted crude has been elevated by geothermal heating and methane contamination from the cavernous salt formations of the storage facilities, making withdrawal difficult. Major problems in the nearly 20-year old mechanical, civil, and electrical systems also require quick attention. DOE conservatively estimates that the cost for those and several related problems will total approximately half a billion dollars over the next several years.

The various oil reserves of the federal government should be privatized immediately. There is simply no reason for the federal government to be owning productive oil or shale fields. Nor can any Strategic Petroleum Reserve, no matter how large, insulate the United States from the effect of international supply disruptions. Selling the SPR would bring anywhere from $7 billion to $10 billion in revenue to the treasury, while sale of the NPR would, according to the Office of Management and Budget, bring another $1.6 billion into the treasury.

Although it often argued that membership in the International Energy Administration (IEA) precludes selling the SPR, member nations are given the option of securing public or private reserves that can replace oil imports for 90 days. Private reserves in the United States are more than adequate to meet IEA's requirement. Congress would be well advised to withdraw from the IEA in any event, but that is another matter outside the immediate topic at hand.

The Strategic Petroleum Reserve

First of all, the Strategic Petroleum Reserve is simply not large enough to meet America's oil demand even in the short term and could never provide significant help in the (extremely unlikely) event of wrenching supply disruptions. The effective withdraw capacity of the SPR is only about 2 million barrels a day, enough to replace but 25 percent of America's daily oil imports for approximately 90 days.[51] Happily, however, this will make no difference for the military in the event of a complete cut-off of foreign oil. Joshua Gotbaum, Assistant Secretary for Economic Security at the Department of Defense, testified before the Senate on March 29,

[50] The Energy and Water Development Act of 1992 (P.L. 102-37, Sec. 505; 106 Stat. 1315) stipulates that "None of the funds made available under this Act . . . or any other law hereafter shall be used for the purpose of conducting any studies relating to leading to the possibility of changing from the currently required 'at cost' to a 'market rate' or any other noncost-based method for the pricing of hydroelectric power by the six Federal public power authorities."

[51] Formed as a consumer counter weight to OPEC, if any one of the 21-member nations loses 7 percent or more of its crude, better situated members of the IEA are obligated to share their supply.

1995, that the military could fight two major regional wars nearly simultaneously while using only one-eighth of America's current domestic oil production.[52]

Moreover, most of the SPR is stocked with high-sulfur crude (purchased for political reasons from Mexico) that would be amply available during any OPEC-induced crisis. It's low-sulfur crude that the U.S. imports from the Persian Gulf and low-sulfur crude cannot easily be substituted for high-sulfur crude without a great deal of cost and performance sacrifices. Thus, the SPR would be of only limited usefulness in the event of a Persian Gulf crisis.

The SPR is not only incapable of replacing America's foreign oil needs, it is incapable of dampening price spikes that may result from oil supply disruptions. First, the Congressional Budget Office points out that any announced intent to open the Reserve will add to market uncertainty due to inherent delays between such a decision and final sale. After such a tentative decision to release was announced in 1990, for example; CBO observes that:

> Greater uncertainty caused individuals and businesses to hold onto their [oil stocks] . . . and that additional demand for private stocks raised oil imports and prices—just the opposite of the original intent of the release.[53]

Second, petroleum is a fungible international commodity. Indeed, Great Britain's "energy independence" was of little help during the energy crisis of the 70s; domestic price increases were no less severe there than in Japan or any other western nation. Oil prices are heavily influenced by global supply and demand curves, and the SPR is nowhere near large enough to effect international markets and thus incapable of significantly effecting domestic prices. Economists Chantale LaCasse and Andre Plourde point out that the only way an economy can be adequately insulated from international supply disruptions is for it and every other country with which it trades to cease trading with OPEC—an obviously unlikely scenario.[54]

According to virtually all observers, oil supply disruptions are less likely now than ever before. Daniel Yergin, President of the Cambridge Energy Research Associates and author of The Prize, notes that "Present circumstances require a balanced perspective. There is a much more secure base to the world's energy economy than was the case in 1973 and—under the right conditions—that base could well extend in to the end of the century and into the next."[55]

Likewise, the CBO has found that "Concern over the inability to secure needed oil during a supply disruption may also be smaller today. Internationally, the number of oil-exporting nations has increased, and the large oil companies have worked to diversify their sources of oil. Thus, oil-exporting nations find it more difficult to cut off supplies totally to individual companies or countries."[56] Moreover, CBO found that "One of the most important changes that affect energy policy is the smaller effect that oil price shocks have on the economy today compared with the past.[57]

And as Robert L. Bradley, Jr., president of the Institute for Energy Research has noted, "While volatility with oil supply and prices can be expected given governmental control over the majority of world's crude, an energy crisis, defined as prolonged price spikes with or without physical shortages, cannot be considered a likely scenario."[58]

Support for the SPR is little more than an economic security blanket for those traumatized by the fear of some dramatic foreign oil squeeze on the United States. Yet short of a seamless naval embargo, no oil boycott could prevent the U.S. from purchasing oil from the international marketplace, and no serious energy economist expects oil prices to ever equal on a sustained basis the price of putting a barrel of oil—approximately $45 per barrel—in the SPR. If one thinks of the SPR as the functional equivalent of an insurance policy, then the premium on the policy exceeds the benefits under virtually any imaginable scenario.

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[52] Joshua Gotbaum, "Oil Dependence & The Defense Mission," testimony before the Senate Committee on Foreign Relations, March 27, 1995, p. 2.

[53] "Rethinking Emergency Energy Policy," The Congressional Budget Office, December 1994, quoted in "Congressional Budget Office Calls for Changes in DOE's Strategic Petroleum Reserve Policy," The Oil Daily, January 3, 1995, p. 7.

[54] Chantale LaCasse and Andre Plourde, "Towards an Operational Definition of Security of Oil Supply," Coping with the Energy Future: Markets and Regulations, proceedings of the 15th Annual Conference, International Association for Energy Economics, 1992, p. F39-46.

[55] Daniel Yergin, "Energy Security in the 1990s," Foreign Affairs, Fall 1988, p. 112.

[56] "Rethinking Emergency Energy Policy," Congressional Budget Office, December, 1994, p. 16.

[57] Ibid., p. 17.

[58] Robert L. Bradley, Jr., "Should the United States Prepare for Another Oil Crisis?" Southern Regulatory Policy Institute, Issue Paper no. 2, December, 1989, p. 3.

Often ignored, however, is that the price spikes experienced in 1973, 1979, and 1990 were not caused primarily by international oil shortages. Professor Edward Erickson of North Carolina State University observes rightly that, "we know full well that the price spikes that characterized past oil market dislocations were as much or more demand driven phenomena than they were the effects of any sustained overall supply diminution or uncompensated disruption in the pattern of world oil flows."[59] Rationing, punishing taxation, trade restrictions, and political embargoes—not dramatic supply cutbacks by producing nations—are what caused the price increases of those years. As noted earlier, international oil supply was only reduced by 3 percent in 1974. It was reduced by double that amount for a few months in 1990 (not because Saddam refused to sell the West oil, remember, but because we refused to allow him to do so) but the economic impact was relatively minor. The difference, of course, was that the United States allowed markets to work properly 5 years ago, whereas the government's massive intervention in energy markets 21 years ago magnified the impact of the disruption and caused massive economic dislocations.

It is important to bear in mind that periodic, politically-caused supply disruptions are not unique to OPEC oil markets. As pointed out by Professor Richard Gordon:

> Supply crisis also have a long history outside OPEC oil—namely draught, flood, and storm damages to crops, coal strikes in the United States, Britain, and Australia, copper strikes in the United States, the effects of oil industry nationalization in Mexico and Iran, the 1956 Suez Canal closing, the 1980 Iran-Iraq war, the civil war in Lebanon (through which oil flows to the Mediterranean), the disruption of cobalt supplies from Zaire, and revolutions in Iraq and Libya. In many of these cases, world supply was not significantly affected. In the others, only temporary rises in price occurred. Political disruption rarely has long-run effects. Even short-run damages can be small.[60]

Also forgotten is the fact that, as pointed out by Erickson, "concerns about oil supplies have long captured the attention of both analysts and the popular audience while revolutions and counterrevolutions were quietly sweeping the demand side markets."[61] Those revolutions in the advent of the booming oil futures market, the present 120 day reserves now maintained by domestic oil companies (reserves larger than the SPR), and increasing slack in domestic production. Says Gordon, "It can be argued that the absence of well-organized spot markets and government-produced uncertainties were the key problems during oil crises up to 1980."[62] Indeed, private stockpiles would be even larger were it not for corporate fear of the government's tendency to impose windfall-profit taxes or price controls when supply disruptions occur.[63] If business is convinced that they will be penalized for recouping the cost of their reserves during price spikes then they will be reluctant to put oil away for use on some future "rainy economic day."

Even if needed, it is unlikely that the SPR will ever be used given the government's reluctance to ever pull the trigger and start crude oil withdrawals. There is always a concern that premature draw downs will spook the markets and perhaps deplete a "rainy day" supply that could be more important later if a crisis were to take a worse turn of events. That reluctance to "pull the trigger" is an institutional problem that manifested itself during the 1990 Kuwait crisis and is likely to prevent the Reserve from ever being used according to many observers and former energy officials.

The Naval Petroleum Reserve

The Naval Petroleum Reserves don't even pretend to operate for a "rainy day," but instead amount to straightforward federal ownership of productive oil and gas lands. There is no economic rationale for such an arrangement; no military need for the fields; and no credibility to the argument that federal ownership of "the means of production" is superior to private ownership. Even President Clinton concedes the need for selling the NPR. As his FY 1995 budget stated (Appendix, p. 406), "producing and selling this oil is a commercial, not a governmental activity. There is good

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[59] Edward Erickson, "What Does It All Mean?" The Energy Journal, Vol. 15, Special Issue, 1994, p. 349.

[60] Richard L. Gordon, "Energy Intervention After Desert Storm: Some Unfinished Tasks," The Energy Journal, Vol. 13, No. 4, p. 5.

[61] Erickson, p. 349.

[62] "Energy Intervention After Desert Storm: Some Unfinished Tasks," p. 6.

[63] Daniel Newlon and Norman Breckner, The Oil Security System: An Import Strategy for Achieving Oil Security and Reducing Oil Prices (Lexington KY: Lexington Books) 1975.

reason to believe industry can run Elk Hills quite well since it [private industry] accounts for most U.S. domestic oil production."

Many fiscal conservatives have long opposed the sale of the NPR, maintaining that the Reserve's assets are worth more in government hands. But the federal government is not producing the assets as aggressively or cutting costs as much as possible, reducing their value compared to what they would be under private ownership. Nor does the federal government have any business operating strictly commercial enterprises simply as a means to produce revenue. It is not empowered Constitutionally to do so and smacks of economic socialism.

ENERGY CONSERVATION AND RENEWABLE FUEL SUBSIDIES

The Department of Energy funds numerous programs that are designed to directly and indirectly subsidize the adoption of energy efficient technologies and the use of renewable fuels. Favored industries receive federal money for technical assistance, information programs, grants, export subsidies, and demonstration projects. More directly, the DOE—under direction of the 1992 Energy Policy Act—pays utilities 1.5 cents per kilowatt hour for power generated from solar, wind, geothermal, or biomass conversion facilities. Those programs should be removed root and branch from the federal budget and all enabling legislation amended or repealed as necessary.

Even is one supports energy conservation subsidies, it must be recognized that State public utility commissions already mandate energy conservation programs and dictate renewable fuel use where practicable. In fact, such state subsidies dwarf the less than $2 billion spent by the federal government in this area.

That is not to suggest, however, that such subsidies are a good idea. The massive, 10 year experiment with state mandatory energy conservation programs (termed "demand-side management" or "integrated planning") has proven a multi-billion dollar bust with few efficiency gains and significant rate increases for electric power customers.[64] State renewable fuel subsidies and mandates in California—the state most aggressive in promoting such programs—have resulted in electricity rates twice the national average and have sparked a counterrevolution to free electric power companies from monopoly regulation.[65]

In fact, a recent study by Resource Data International prepared for the Center for Energy and Economic Development calculates that:

- Current policies will only increase the market share of renewable fuels from today's 2 percent to 4 percent of the market by 2010 but at a cost to ratepayers of $52 billion; and
- Even if the public subsidized 50 percent of the production costs, renewable fuels would only comprise 11 percent of the market by 2010 and cost ratepayers $203 billion in the process.[66]

Decisions about appropriate fuel choices can be best made by examining prices which, after all, are simply quantified reflections of relative scarcity. If solar power, for example, is twice as expensive as natural gas for a given application, it means that the resources necessary to produce power from the sun are twice as scarce as those necessary to generate power from gas. This is simply axiomatic. Although some will object to that statement by arguing that externalities such as environmental harm are not factored into the price, that is somewhat misleading in that regulatory costs of environmental compliance are factored into prices and indirectly reflected in business decision making.

Even so, externalities are a function of government policies that deny property rights over resources or deny harmed parties access to courts where damages might be identified and corrected by injunctive relief. More importantly for policy purposes, there is no way to intelligently quantify or measure externalities one way or the other (there are, after all, positive as well as negative externalities and any statement about a given fuel's externalities must consider both sides of the ledger).[67] Any pretense, therefore, that a subsidy is simply correcting for some external-

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[64] See generally Jerry Taylor, "Energy Conservation: The Case Against Coercion," Cato Policy Analysis No. 189, March 1993.

[65] See generally Matthew Hoffman, The Future of Electricity Provision, Regulation (Washington: Cato Institute), Vol. 14, No. 3, 1994, pp 55-62; Robert Michaels, "Restructuring California's Electric Industry: Lessons for the Other 49 States," (Houston: Institute for Energy Research) February 1995; and Robert L. Bradley, Jr., "The Electric Restructuring Debate in California: Summary and Analysis," paper presented at Cato Institute policy forum, October 28, 1994.

[66] "Energy Choices in a Competitive Era: The Role of Renewable and Traditional Energy Resources in America's Generation Mix," Resource Data International (Alexandria, VA: Center for Energy and Economic Development). April 1995, P. 3.

[67] Roy Cordato, "The Value Test: An Excercise in Futility," paper presented at the Cato Institute conference, "New Horizons in Electric Power Deregulation," March 2, 1992.

ity is nonsense in that it is impossible to even come close to calibrating the external effect with the public corrective.[68]

Likewise, energy conservation decisions are best made by private parties who measure the costs and benefits as they see them in their own unique circumstances. Generally, government subsidy simply distorts otherwise rationale decision making; benefits the energy wasteful while taxing the energy thrifty; often wastes more energy then it saves due to the "snap-back" effect (well known to economists); displaces private sector energy efficiency consultants and engineers who find it hard to compete with DOE or the States; and can prove tremendously wasteful when opportunity costs are accounted for.[69]

MISCELLANEOUS

Although there are a plethora of minor DOE undertakings buried in the budget, suffice it to say that they should all be eliminated. There is simply no reason for government to be involved in the energy business at any level. The Federal Energy Regulatory Commission (FERC) should ultimately be dismantled, but again, that's an argument for another day. In the meantime, FERC should remain a standing independent agency. A few comments, however, are in order for three of the most prominent remaining DOE programs; the Home Weatherization Program, the Energy Information Administration, and the Energy Regulatory Administration.

The Home Weatherization Program managed by DOE should by eliminated. The program is nothing but welfare with extremely high overhead, and welfare policies are properly addressed elsewhere in the budget.

The Energy Information Administration is generally unnecessary. Private businesses have more than enough incentive to invest in good information on which to base their marketing decisions. Why have the taxpayer pay for what other industries pay for themselves? Public information gathering would probably be continued by trade associations such as the American Petroleum Institute and the Edison Electric Institute, the World Resources Institute, consulting firms such as Cambridge Energy Research Associates, policy groups, lobbyists, and specialized consultants.

The Energy Regulatory Administration has two functions; regulation of international fuel shipments, which can be transferred to the Department of Commerce, and enforcement of oil price controls, which were abolished in 1981. The remaining oil price control cases should simply be dropped as an ancient and pointless waste of time that only serves to run up bureaucratic costs and harass businesses.

CONCLUSION

Congress' intervention in energy markets has been largely unsuccessful even in achieving its own specified objectives. But failure has been no deterrent for many, who reflexively conclude that the intervention was executed poorly even when it was unnecessary or counterproductive in the first place, or that the "wrong" technology was subsidized (Synfuels for example) or fuel was banned (natural gas in 1978) when government had no ability in the first place of intelligently deciding the matter. Moreover, unsuccessful policies (such as energy subsidies through the PMAs) have generated unintended side-effects (excessive energy use and environmental damage) that have in turn spawned demand for more interventions (mandatory energy conservation and externality pricing) to correct for the consequences of the original mistakes.

Professor Colin Robinson observes rightfully that:

> Most of the "second-hand dealers in ideas" have accepted that central planning has failed but they have not drawn the logical conclusion—that, for essentially the same reasons that central planning failed, most government intervention will also fail. The demonstrations many years ago by von Mises and Hayek that the informational and calculational requirements of centralized planning and forecasting are such that it is very unlikely ever to be socially beneficial (though it may, of course, provide benefits to those

[68] See generally James Buchanan, "Introduction: LSE Cost Theory in Retrospect," in LSE Essays on Cost, Buchanan and Thirlby, eds. (New York: N.Y.U. Press) 1981; Roy Cordato, Welfare Economics and Externalities in an Open Ended Universe (Boston: Kluwer Academic Publishers) 1992; and Israel Kirzner, Market Theory and the Price System (Princeton, NJ: D. Van Nostrand) 1963.

[69] See generally Jerry Taylor, "Energy Conservation: The Case Against Coercion."

who do the planning) apply, mutatis mutandis, to lesser measures of government intervention.[70]

Some who support a continuing federal mission in energy markets are well meaning but simply wrong. Others who do so are, frankly, in it for a buck. Given all the billions of fuel and R&D subsidies that are doled out by the Department of Energy, it is not surprising that last December six energy industry trade groups joined together to save DOE. Arguing vaguely that "to dismantle the focal point of U.S. energy policy in order to realize only small budgetary savings would send a strong message that the United States no longer recognizes the importance of energy security to our nation's economic future" (does our lack of a Department of Moral Values likewise send a strong message that the United States fails to recognize the importance of character?), executives of the Edison Electric Institute, the National Coal Association, the American Wind Energy Association, the National BioEnergy Industries Association, the Solar Energy Industries Association, and the National Hydropower Association (and later, the American Gas Association, the National Rural Electric Cooperative Association, American Waterways Operators, the National Cooperative Business Association, the Western Fuels Association, the American Public Power Association, and the nuclear power lobby) went on record as voting for their corporate welfare checks. Many giant corporations are also on the receiving end of DOE largess. Wal-Mart is in line this year, for example, to receive $100,000 of taxpayers' money to install a photovoltaic demonstration project at one of its stores in California.[71]

Dismantling the DOE would save billions, lower energy prices, and stimulate the economy. Moreover, it would dramatically demonstrate to the American people that the message they sent last November was heard and that Congress intends to abide by their wishes. Thank you, Mr. Chairman.

Mr. HORN. Both of those were excellent presentations, and now we have Mr. Herbert Jasper, a senior associate for McManis Associates, and a fellow of the National Academy of Public Administration.

Mr. Jasper.

STATEMENT OF HERBERT N. JASPER, SENIOR ASSOCIATE, McMANIS ASSOCIATES, AND FELLOW, NATIONAL ACADEMY OF PUBLIC ADMINISTRATION

Mr. JASPER. Thank you. Much of my career has focused on governmentwide organization issues, so I greatly appreciate this opportunity to testify. The views I express are, of course, my own and do not necessarily correspond with those of the National Academy of Public Administration or of McManis Associates.

With some exceptions, the executive branch is organized primarily according to major purpose, which has served the Nation well. With that in mind, I would like to suggest a few criteria for evaluating each of the reorganization proposals now before Congress.

Would it combine a number of programs whose goals are closely related?

Does the agency warrant independent status or corporate status? Should it be devolved or privatized?

Would it improve the leadership, visibility and public support for the programs?

Would it improve service, save money, or prevent domination by one constituency group or professional discipline?

I should like to make several additional observations about reorganization.

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[70] Robinson, p. 57.

[71] George Lobsenz, "Corporate Welfare Alive and Well at DOE—Just Ask Wal-Mart," The Oil Daily, March 1, 1995, p. 1.

The character of Federal operations has changed dramatically since we last had a comprehensive review of executive organization.

Reorganization is not neutral. It gives emphasis or priority to certain values or goals at the expense of others. It is costly and disruptive. It seldom saves any significant amount of money by itself. Cost savings and improved customer service can best be accomplished by program consolidation and reengineering rather than by reorganization.

And last, as you and Chairman Walker discussed earlier, reorganization proposals often founder on the shoals of congressional committee jurisdiction.

Looking at the 14 executive departments critically in light of those factors, at least four would seem to have questionable status because their programs are too narrow, or too disparate, or might better be lodged with related programs in other agencies, and those are Labor, Education, Energy and Veterans Affairs.

The other 10 generally seem to warrant departmental status so long as they are vested with responsibility for their current programs, or for a major portion of them.

With respect to independent agencies, I think that, perhaps, 10 to 20 of them could be consolidated with each other or with Cabinet Departments. However, I urge that Congress not pursue reorganization for its own sake, but only to improve efficiency or performance.

There are 10 agencies in the Executive Office of the President, and two independent agencies performing governmentwide management functions are not in that office. I believe the dispersal of governmentwide management responsibilities among 14 entities—the Vice President's office, the National Performance Review, the President's Management Council, nine different parts of OMB, GSA and OPM—is a serious problem.

The management role of the Vice President's office and his NPR necessarily weakens that of OMB, and there seems to be a continuing rivalry between the two. Further, relying on a transitory staff in NPR cannot give us the continuity and expertise that government management requires. As a result of these deficiencies, I have lately become a convert to the idea that now may be the time to establish an Office of Federal Management. By all means, leave the agency-specific management staff and functions in OMB, but we need to consolidate the dispersed general organization and management staffs.

I recommend, Mr. Chairman, that you introduce and hold hearings on legislation to establish an Office of Federal Management, but not necessarily to increase the staff now working on those functions.

With respect to the rest of the reorganization agenda which you have been hearing about today, if I were to sum up my testimony in two words, they would be "Go slow"; or if I were allowed four words, they would be, "First, do no harm."

I urge that Congress decouple reorganization from the broad group of proposals to terminate, transfer to the States or consolidate a wide variety of programs. A reorganization that appears

sensible now may prove to be unwise by the time the inevitable compromises are made in the legislative process.

In the meantime, many of the best personnel in the targeted agencies will have found new jobs. If the agency is saved from the "gallows" at the last minute, perhaps in a Conference Committee report, it will be too late to put Humpty-Dumpty back together.

If one thinks government is now broken, I shudder to consider what it will be like if we make reorganization decisions before we know for sure what the agencies are to do. I recommend, therefore, that the committee initiate legislation to create a Commission on Executive Reorganization to be activated on October 1st.

The Commission would conduct a comprehensive review of executive organization in the light of the program restructuring which finally emerges from this session of Congress. A vital part of that review would also be to evaluate the effects of the changes which have developed over the past 15 to 30 years in what agencies do and how they operate. The Commission would propose some new organization doctrine as well as a strategy for reorganization.

Such a Commission would usually have about 18 months to function. I suggest, however, that you give it only 6 months to make its recommendations, by March 31st of next year. Then this Congress would have the remainder of the next session to act upon them.

Thank you.

Mr. HORN. Well, we thank you. It is a very thorough statement. It has some very interesting criteria.

[The prepared statement of Mr. Jasper follows:]

PREPARED STATEMENT OF HERBERT N. JASPER, SENIOR ASSOCIATE, MCMANIS ASSOCIATES, AND FELLOW, NATIONAL ACADEMY OF PUBLIC ADMINISTRATION

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to offer my comments on restructuring the executive branch. 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. I was Executive Secretary of the 1964 White House Task Force on Government Reorganization (the "Price Committee"). The views that follow are my own, and do not necessarily represent those of NAPA or McManis Associates.

FEDERAL AGENCY DEMOGRAPHICS

Before introducing theories of organization, or considering specific reorganization proposals, it may be helpful to describe the federal executive branch as it now stands. The committee may be familiar with a Senate Committee Report (S.103-26) that contains a large chart entitled "Organization of the Federal Executive Departments and Agencies."

The executive branch is composed of 14 executive departments and about 70 Executive Office of the President and "independent" agencies, including about a dozen, independent regulatory agencies. (Independent agency simply means one that is not in an executive department.) Independent regulatory agencies are boards or commissions, but many single-headed agencies also have regulatory responsibilities. There are also a number of small, specialized, often time-limited boards and commissions.

There is no uniformity in the nomenclature and formal status of agencies in the statutes which create them. So the number of independent agencies varies among published sources. The "official" U.S. Government Organization Manual is published by the National Archives and Records Administration that also prepared the Senate report. A larger number of "agencies" can be found in the entrepreneurial "Federal Yellow Book."

The Cabinet. The departments are often referred to as "Cabinet agencies" (or Cabinet departments) but the term "Cabinet" is not defined in statute. The Defense Department includes three "military departments" and is one of the 14 Cabinet departments. Presidents have often conferred "Cabinet status" on other officials, such as (currently) the Vice President, the Director of the Office of Management and Budget (OMB), the Administrator of the Environmental Protection Agency, the U.S. Trade Representative, the Ambassador to the UN, the Director of the Office of National Drug Control Policy, the White House Chief of Staff, and (in the past) the Director of the Central Intelligence Agency and others, from time to time.

The Executive Office of the President. There are ten agencies in the Executive Office of the President, including the White House Office, OMB, the National Security Council, the Council of Economic Advisers, the Office of Science and Technology Policy, the Office of the U.S. Trade Representative, the Office of National Drug Control Policy, and the Council on Environmental Quality. Two independent agencies performing government-wide management functions are not in the Executive Office of the President, viz., the Office of Personnel Management and the General Services Administration.

Government Corporations. There are about 30 government corporations but that term, also, has not been used uniformly or always correctly. Some are in executive departments, such as the Government National Mortgage Association in Housing and Urban Development and the St. Lawrence Seaway Development Corporation in Transportation. Others are independent agencies, such as the Federal Deposit Insurance Corporation and the Tennessee Valley Authority. The U.S. Postal Service is not officially designated a "government corporation" in its enabling act but is, for all intents and purposes, a corporation. Some government corporations are subject to the Government Corporation Control Act, while others are not.

Unfortunately, both Congress and the Administration have occasionally denominated an agency as a corporation when it has no corporate characteristics. The National Performance Review seems to be "going overboard" with proposals to create corporations, as if it is a panacea for whatever ails the program or agency. I think Congress should be wary of accepting the corporate classification unless the program is, or is expected to become, self-supporting. (That would not preclude some appropriations for intentionally-subsidized activities, as in the case of the Tennessee Valley Authority and, until recently, for the Postal Service.)

Government Sponsored Enterprises (GSEs). There are a number of GSEs which are technically not agencies of the U.S. government. These include Fannie Mae and Freddie Mac. The government, however, often has a vital interest in the performance of these entities as the public may expect the government to guarantee their obligations, even where the enabling statute disclaims such responsibility. Pending proposals to "privatize" government functions may lead to an increase in the number of such GSEs.

Distribution of Funds and Personnel. The largest independent agencies (in terms of employees or expenditures) are the National Aeronautics and Space Administration, the Social Security Administration, the Railroad Retirement Board, the Environmental Protection Agency, the National Science Foundation, the General Services Administration, the Tennessee Valley Authority, the U.S. Postal Service, and the Small Business Administration.

All together, the executive branch currently employs a little more than two million Full Time Equivalent (FTE) persons (excluding the Postal Service). The total expenditures of these agencies are on the order of $1.5 trillion. More than 91% of the FTEs are employed in the 14 executive departments, of which almost half are in Defense. Approximately 79% of the expenditures are made by the executive departments, of which about 24% is by Defense.

The Commerce, Interior, and State Departments have the smallest expenditures. The Education, Housing and Urban Development, and Labor Departments have the smallest number of FTEs.

ORGANIZATION BY MAJOR PURPOSE

There are a number of approaches to designing the organizational structure of a government or of a business enterprise. The principal ones are by function (e.g., the Office of Personnel Management), by clientele or "customer," (e.g., the Department of Veterans Affairs), by region (e.g., the Appalachian Regional Development Commission), or by major purpose.

The United States settled on organizing primarily by grouping together programs whose major purposes were closely related. Thus, we have a national security (Defense) department, a foreign affairs (State) department, a legal (Justice) department, a revenue (Treasury) department, and so on.

I suggest that this approach has served us well and I think that we should not depart from it. However, since the 1937 report of the President's Committee on Administrative Management (Brownlow Committee) and the 1949 reports of the Commission on Organization of the Executive Branch (first Hoover Commission), a lot has happened.

Government programs have multiplied and mushroomed—accompanied by significant overlaps and crosscutting issues that defy rational management; technology has revolutionized the way business is conducted; vast delegations of federal program responsibility have been made to state and local governments; direct service to end users by federal agencies is no longer a dominant activity; "control" offices and procedures have throttled agency managers; contracting out has become the principal method by which some programs operate; and Government Sponsored Enterprises have sprouted around us. As a result, we have to find new and better ways to assure accountability for effective management and prudent expenditures.

Accordingly, we need to review our established, major-purpose doctrine of organization in the light of these developments. We should have an organization strategy before we radically restructure the executive branch and confront the inevitable "unintended consequences." I make a proposal about that at the end of my statement. Until that takes place, however, we need to identify some criteria by which to evaluate the large number of pending proposals that existing agencies be eliminated, combined, removed from the Cabinet, or added to it.

CRITERIA FOR DEPARTMENTAL STATUS

In 1988, a panel of the National Academy of Public Administration set forth criteria by which one could evaluate proposed Cabinet status for any candidate agency. That was in its report for the Senate Committee on Governmental Affairs entitled "Evaluation of Proposals to Establish a Department of Veterans Affairs." I did not serve on that panel but I would like to commend the report to your attention.

The panel listed and discussed 14 criteria (on pages 7-20 of the report) as they would apply to the Veterans Administration (VA). Upon careful review, I have concluded that the criteria are too numerous, somewhat overlapping and too specific to the VA case for convenient, general application.

They were also designed to address proposals to elevate an existing agency to the Cabinet. Therefore, they may not be entirely suitable for the agenda of this Congress and this Administration, which concerns termination or combination more than elevation to the Cabinet. Another source of criteria for evaluating reorganization proposals is Seidman and Gilmour's book, Politics, Position and Power, the first edition of which was written by Harold Seidman in 1970, when he was Scholar-in-Residence at the National Academy of Public Administration.

SUGGESTED CRITERIA FOR EXECUTIVE REORGANIZATION

I have revised, grouped and consolidated the Academy panel's 1988 proposed criteria, and have added some ideas from the Seidman-Gilmour text. I suggest the following five, which I hope the committee will find to be more manageable. Additionally, they should be generally applicable to executive reorganization, rather than merely to executive departments. (I recognize that this may go beyond the committee's legislative jurisdiction. However, I think it would be of interest and, moreover, there are a number of ways that more extensive executive reorganization could become a focus of this committee, as I suggest at the end of my statement.)

1. Are there now in one agency, or can we combine in it, a number of programs which are closely related in terms of contributing to the achievement of broad national goals?
2. Would the combination of related programs improve service delivery, would it save money, either for the taxpayers or for those affected by the programs, and would it prevent the domination of the agency by one constituency group or by one professional discipline?
3. Does, or would, Cabinet status improve the leadership, visibility and public support for the programs?
4. Does the agency warrant independent status, whether in the Cabinet or not, as compared to other agencies; does the public interest require that it remain in the government (even if contracted out) or can it be devolved or privatized?
5. Would the reorganization strengthen or weaken the Cabinet? (It must be noted that the Cabinet, as a body, has not played a significant role for a number of years.)

LIMITATIONS OF REORGANIZATION

Before commenting on the application of these suggested criteria to proposals now before Congress, I should like to make several observations about reorganization.

- Reorganization is costly and disruptive; it may put an agency virtually out of business for one to three years while the proposal is being formulated, debated, enacted and implemented.
- Whatever benefits are envisioned (or actually ensue) from a reorganization, there will be losses—not just costs. That is, reorganization is a way to give emphasis or priority to certain values or goals; but this inevitably means the downgrading or submergence of other values or goals.
- Reorganization, per se, seldom saves any significant amount of money. For example, the combination of two executive departments, without other actions, would save little more than the salaries of a handful of presidential appointees and of their immediate staffs.
- To the extent that increased efficiency, cost savings and improved "customer" service are our objectives, these can best be accomplished by program consolidation, either standing alone, or as an integral part of a reorganization, rather than by merely vesting the existing authorities or functions of two or more agencies in a single one.
- As made clear in the Seidman-Gilmour book, executive reorganization proposals often founder on the shoals of congressional committee jurisdiction.

As I noted earlier, I served as Executive Secretary of a task force on reorganization about 30 years ago. It may be instructive to review what happened to our proposals.

The establishment of two departments during the Johnson Administration followed our recommendations viz., Housing and Urban Development, and Transportation. So did the splitting of the former Atomic Energy Commission's regulatory functions, which went to the Nuclear Regulatory Commission, from its military functions, which eventually became housed in the Energy Department. The recommendation to include the Small Business Administration in Commerce was not followed. The proposal to merge the Commerce and Labor Departments in a Department of Economic Development was eventually proposed to Congress by President Johnson, but received no serious consideration. The proposal for a Department of Natural Resources was not acted upon.

A number of other recommendations to merge smaller agencies with larger ones were also not adopted. As a result, much of that 3-year old report is still current! That may tell us a lot about the difficulties of achieving agreement on even the most meritorious proposals, as well as that the consequences of maintaining the organizational status quo might not be horrendous.

APPLICATION OF CRITERIA TO THE CURRENT CABINET OR TO CANDIDATE AGENCIES

The following comments are offered without regard to their "political correctness" or acceptability. At this point, I should reiterate that I am speaking strictly for myself.

Of the 14 executive departments, at least four would seem to have questionable status as members of the Cabinet because of their failure to meet one or more of the suggested criteria: Labor, Education, Energy, and Veterans Affairs (VA). (It would probably be untimely to revisit the issue of whether VA ought to be in the Cabinet, or ought to be split up.) The other ten Cabinet departments generally seem to warrant executive department status as long as they are vested with responsibility for their current programs. Of course, the proposals to terminate Commerce, Education, Energy, Housing and Urban Development, and others are based on proposed, drastic changes in their responsibilities. Clearly, if such changes are adopted, consideration should be given to eliminating the agencies.

Of the "independent agencies," only the Environmental Protection Agency (EPA) appears to warrant consideration for being made an executive department. However, it would be essential to update and rationalize its many disparate statutory authorities if there is to be any prospect for improving program management by such a department. Additionally, departmental status for EPA would make more politically feasible the inclusion of the Council on Environmental Quality in it. (I would vote "yes.")

A number of departments, notably Interior, Agriculture and Commerce, appear to have functions which might more effectively be assigned to other agencies. In particular, a Department of Natural Resources could combine appropriate functions of Interior, Commerce (NOAA), Agriculture, the Army Corps of Engineers, and Energy. Such a department would replace the Interior Department and, with the transfer

of its military functions to Defense, would make possible the termination of the Energy Department. (I would vote "yes.")

APPLICATION OF CRITERIA TO PROPOSED NEW DEPARTMENTS OR AGENCIES

The Environmental Protection Agency has already been mentioned as a legitimate candidate for departmental status, subject to the rationalization of its disparate statutory authorities. Comments on other proposals follow.

A Department of Science would combine functions now allocated to departments and agencies based on the "Major purpose" doctrine of organization. Science is not a major purpose of the government. Except for the programs of the National Science Foundation, government science programs generally exist to further the programmatic objectives of the agency which is currently responsible for them. Inevitably, these programs would be weakened by having their science elements removed. To the limited extent that there may be some overlap or competition, that may be in the public interest, since we do not have the ability to predict what benefits scientific exploration may yield. (I would vote "no.")

A Bureau of National Statistics would combine statistical functions of a number of agencies, such as those in the Departments of Commerce, Labor and Education. Here, too, the combination would be based on function, rather than on major purpose, and it would weaken the capacity of the agencies effectively to carry out their program responsibilities. There is substantial coordination among these agencies and some, such as the Bureau of Labor Statistics, contract with others, such as the Census Bureau, to prevent duplication of activities. (I would vote "no.")

The proposed transfer to the State Department of the Arms Control and Disarmament Agency, the Agency for International Development and the U.S. Information Agency would be consistent with the major purpose theory for organization of foreign affairs programs. On the other hand, there are numerous agency "cultural" differences and historical reasons for independence which argue against such a consolidation. (I would vote a definite "maybe!")

A proposal for a Department of Education and Employment would include the Education and Labor Departments, as well as the Equal Employment Opportunity Commission (EEOC). From one perspective, the departments do include related major purposes (but EEOC might better be placed somewhere else, such as in Justice). They have substantially different constituents and professional disciplines although that may be an advantage. Both Education and Labor are relatively small, by some measures, compared to other departments. (I would vote "yes.")

INDEPENDENT AGENCIES

Apart from the 14 departments, there are, as already noted, about 70 "independent agencies." I believe there may be efficiencies to be gained, and some money to be saved, by consolidating a number of these agencies with each other or with Cabinet departments. I think a "shopping list" of 10 to 20 such consolidations could readily be produced. However, I should first like to remind the committee of the cautions that I listed earlier. In brief, one should have some particular objective in mind whose prospect for achievement would be enhanced by the proposed reorganization. I urge that the committee not be induced to pursue reorganization for its own sake.

There are two independent agencies that might better have been left where they were. Circumstances, however, would suggest that it would be untimely to propose the reversal of independent status for the National Archives and Records Administration and for the Social Security Administration.

Executive Office of the President (EOP). The structure of the EOP warrants congressional attention. As suggested earlier, the Council for Environmental Quality might be merged with EPA whether in a new department or not.

A more serious problem involves the dispersal of government-wide management responsibilities among the Vice President's Office, the National Performance Review (NPR) staff, the President's Management Council and nine different parts of the Office of Management and Budget. I believe that is not good for the executive branch or for Congress, and that it undermines the intent of Congress in establishing the post of Deputy OMB Director for Management.

While there may be more collaboration between NPR II and OMB than there was during NPR I, I am still troubled by what seems to be a continuing rivalry between these two organizations. Further, relying on a transitory staff in the Vice President's Office or in the NPR does not give us the continuity and expertise that government management requires.

I am a very late convert to the idea that it is now time to establish an Office of Federal Management in the EOP. By all means, leave the agency-specific management staff and functions in OMB's newly-named Resource Management Offices. But

we need a general management staff with a government-wide focus. I think it was a serious mistake for the OMB 2000 reorganization to disperse the general management staff to agency-specific units, despite the history of two such reorganizations in the past—both of which were ultimately reversed because they had failed. I recommend that the chair introduce legislation to establish an Office of Federal Management.

CONCLUSION

At the end of the Reagan Administration, in the bill elevating VA to Cabinet status, Congress authorized the next President to establish a Commission on Executive Reorganization. President Bush declined to exercise that power. Senator Roth, Chair of the Committee on Governmental Affairs, was the principal proponent of that proposal and is said to be still considering it.

Since Congress is now working on a broad group of proposals to terminate, transfer to the states, or consolidate a wide variety of programs, I propose that Congress decouple reorganization from the pending program legislation until "the dust settles." A reorganization that appears sensible based on the assumption that all the program changes will be agreed to may prove to be unwise by the time the inevitable compromises are made in the legislative process. In the meantime, personnel in the targeted agencies will be looking for new jobs and, if the agency is saved from "the gallows" at the last minute, it may have become incapacitated.

I recommend, therefore, that the committee draft legislation to authorize a Commission on Executive Reorganization, and to require its activation on October 1, 1995. In that way, the commission could conduct a comprehensive review of executive organization in the light of the program restructuring which emerges from this year's congressional budget and related legislation. A vital part of that review would be to evaluate the effects of the changes which have occurred in the way federal agencies operate (as discussed earlier) and develop for Congress' consideration some new organization "doctrine," as well as a strategy for reorganization.

A commission of this sort would usually have as much as 18 months to function. In this case, however, I would suggest that it be given only six months to make its recommendations. Then this Congress would have the remainder of the next session to act upon them.

Mr. HORN. Let me ask a question that I would like all of you to respond to.

In Mr. Jasper's written testimony, I note you question whether the Departments of Labor, Education, Energy and Veterans Affairs should be executive departments. How do you suggest eliminating or consolidating the functions in those departments, and where would the jurisdiction of each department be?

Are you thinking of combining the remaining executive departments? Are there mergers that we haven't discussed at this point? Where do you see those functions going?

Mr. JASPER. First, I would like to preface my remarks by the same cautions that I stated in my both prepared and my oral testimony, I think that this should not be done precipitously. It should be done after we see what sorts of retrenchments take place, because the model that I give you now might turn out to be in need of reevaluation later.

But I think—for example, one of the proposals before the Congress is to combine Education and Labor. There is a certain logic to that. They have related functions, but they have different constituencies, so applying the criterion of trying to avoid a single constituency or a single interest group, that would argue for such a combination.

Alternatively, Lyndon Johnson proposed—though I think not seriously—the combination of the Departments of Commerce and Labor. But there are a number of combinations we could consider.

Mr. HORN. Which is what it originally was in 1903.

Mr. JASPER. Exactly. Which probably tells us something about the virtues of reorganization.

With respect to Veterans Affairs, I would not, I think, be so bold as to suggest that it is timely to revisit that subject. Theoretically, I don't think it makes sense. It is a constituent-based organization; its programs overlap with those of HUD and HHS and Education, but I think politically it is probably untimely. Normally, I don't shrink from making recommendations because of political reasons, but I think that would be a "loser."

With respect to Energy, I think that a number of comments have already been made. The principal solution, in my view, would be to establish the long-proposed Department of Natural Resources, which would combine appropriate elements of the Agriculture Department, the Interior Department, the civil functions of the Corps of Engineers and the power marketing functions, if they remain governmental, and of the Energy Department, in such a department. That would leave you with the question you raised earlier about what to do with the nuclear weapons functions of the Energy Department.

I suppose that I am sympathetic with your view that just putting them in the Defense Department under an Under Secretary doesn't necessarily give you sufficient civilian control. However, I would suggest that the issue of having political appointees "go native" is endemic. And what I would do—and I neglected to say this 2 weeks ago when I talked about reducing the number of political appointees—I would probably cut the White House staff in half also, if not by two-thirds. I would have the White House staff be overseers to make sure that the political appointees don't go native. So, perhaps with that sort of combination of oversight on the part of OMB and the White House, we might be able to trust Energy's military functions to the Defense Department.

Mr. HORN. Well, I suspect the Speaker would agree with you. He noted a few weeks ago that Franklin Roosevelt ran the Second World War with six administrative assistants. He was thinking of the Brownlow Committee recommendations that the President needed just six anonymous administrative assistants.

Mr. JASPER. More like 600 now and not anonymous.

Mr. HORN. They are not anonymous. They are on TV every day and better known than Cabinet officers, so much for anonymous administrative assistants.

But Roosevelt had a very direct line to a few people that oversaw many of these agencies on his behalf. And he focused, as a former Governor and chief executive, on what needed to be done and let others worry about what he didn't need to do. As you know, he often sent Cabinet officers on competing tasks just to build a little competition and get their blood flowing.

Mr. JASPER. When I was in the Bureau of the Budget, the White House used to depend on us for the staff work to support the programmatic reviews they were doing. Now the White House is organized to "do its own thing," so it is another competing research and analysis center.

Mr. HORN. Right.

Mr. TAYLOR. If I can interrupt for a moment, Mr. Chairman.

Mr. HORN. Sure.

Mr. TAYLOR. There is much to be gained from Mr. Jasper's testimony, but I don't want to leave the impression that somehow the fundamental problem of the Federal Government is that it is poorly organized. The fundamental problem of the Federal Government is it tries to do things it is incapable of doing and is doing too much. American people didn't go to the polls in November because they were frustrated with poor organization. That wasn't the point.

It is true that it is poorly organized, but it is more true that it has no business indulging in many of the activities that it indulges in and simply, as Mr. Jasper indicated, reshuffling organizational flow boxes is not the best way of going about the activities the American people have sent Congress to do.

Mr. HODGE. I am somewhat troubled by this go-slow approach. I should hope that the CEO's at Sears and General Motors and IBM and all of the other companies that are restructuring today don't have management consultants that can walk in and say, "Go slow, you might do something wrong." No. If they go slow, then the market goes sweeping by them before they can blink an eye, and they lose market share and they lose their place in the markets and they start losing profits, which drives investors away.

In the past 60 years, I think I can remember—at least if history tells me—at least half a dozen major reorganizational commissions. There were two Hoover Commissions. There has been—well, now the Gore Commission.

Somehow government seems to get bigger after each one of these commissions, and I think it is time to stop this commission nonsense and start terminating major sections of the Federal Government, whether it is the Department of Education, Labor, and so forth, I think we have outlined in great detail how that can be done, whether it is through the use of block grants, federalism, if you will; whether it is full privatization.

I join with Mr. Taylor in supporting a tremendous privatization effort, especially with the Department of Energy, but many other aspects of government.

We are seeing privatization sweeping the globe. Major countries from Argentina to China are privatizing their government state-owned utilities; and yet Congress has actually made it illegal for the executive branch of government to study privatization options.

We have over 35 laws in place preventing government bureaucrats from studying privatization, whether it is Amtrak or the Power Marketing Administrations. If any CEO in America made it illegal for his corporate managers to study ways of saving their customers money, I think he would be thrown out of his position. I think it is outrageous that Congress is preventing us from studying ways of downsizing government. And the faster we move on this, the quicker we will be able to get it through, because the political opposition won't be able to muster and that has always been a problem.

I think it is time that we start to move swiftly and surely, and if we make a mistake, so be it. Let's admit we made a mistake. But we know, after spending at least $5 trillion over the last couple of years on programs that should have been terminated decades ago, that we cannot simply afford the mistakes that we are currently making.

Mr. JASPER. Could I add a brief rejoinder?

Mr. HORN. Well, please.

Mr. JASPER. I just wanted to say, as a citizen and a taxpayer and a student of public policy, I obviously have my own opinions on policy matters, but I didn't come here today to talk about them. I am perfectly willing to defer to these gentlemen who have their own particular proposals.

My point is simply that where you start with a proposal in an introduced bill might be a far cry from the enacted bill, and I think to mix up reorganization and restructuring at the same time might turn out to be very damaging.

I am not suggesting that Congress shouldn't proceed with the program restructuring. I can read the election returns just as well as the next person, but I think you ought to do that first, and then reshuffle the boxes after you know what are in the boxes.

Mr. HODGE. That is the case in creating these agencies to begin with. The Department of Agriculture was created by President Lincoln in 1864 as a small research organization with nine staff members to disseminate research on agricultural techniques. Look at the morass that it has become today. There are soon to become more bureaucrats at the Department of Agriculture than we have farmers.

I mean, the least we can do is have these people go out and hoe fields, for goodness sake, and put them to productive use.

I would not shy away from making mistakes. So be it if we put bureaucrats out of work. They will have to go out into the private sector. There are many techniques by which we can soften that blow, whether it is buyouts, employee stock ownership plans. We can bring in corporate CEO after CEO to show us how they downsized.

Look at the way Sears, Roebuck restructured. They bought out every employee over 50, using the sale of assets such as the Sears Tower. Perhaps we could begin to use those same techniques in the Federal Government. Sell off the Strategic Petroleum Reserves and buy out half the staff of the Department of Energy.

These are businesslike techniques that are shunned here in Washington. It is time we brought them to Washington.

Mr. HORN. Well, I thank you for that answer. I now yield to Mrs. Maloney.

But I must say, some of your comments remind me of some of the leaders I met in China who were active in the cultural revolution, where bureaucrats were sent to the fields. I don't know if you are advocating that or not, but it sounded like it.

Mr. HODGE. At least it adds to the economy.

Mr. JASPER. Even if they are about to give birth, I would say.

Mr. HORN. The ones I knew didn't add much to the economy because they went out in a 500-mile train ride from Beijing, were led off in the middle of the night with a few axes and told "you are living here for the next few years, make your own homes, find groceries, et cetera." I don't know if that will apply to people in nonprofit institutes in Washington, DC, but it is an interesting point.

Mr. HODGE. I would like to put myself out of a job as well, Congressman.

Mr. HORN. OK. The ranking member, Mrs. Maloney of New York.

Mrs. MALONEY. You all have a lot of passion and energy on wanting to improve government, and I have enjoyed listening to you.

Speaker Gingrich testified recently about Corrections Day, where ridiculous rules or programs or things that are just really hindering government might be eliminated. I would just like to hear from you, each of you, if you have your pet correction for Corrections Day, to make government work better or to delete from government.

Mr. HODGE. Well, it is hard to know where to begin. The Heritage Foundation has just put out a book called Red Tape in America, which outlines hundreds of horror stories in which regulators have severely impacted private citizens through their behavior.

But I think that I would begin by rolling back some of the horrors that I see in the laws passed by Congress which make it impossible for bureaucracies to save money. Whether that is procurement laws or the privatization—antiprivatization laws I mentioned, or even things like the Davis-Bacon Act, which raise the cost of construction projects and actually has a racist impact on black Americans.

So I would begin to start scouring through the laws that have already been passed that have indeed forced bureaucracies to waste money or to at least stifle their ability to save dollars, whether it is employment floors and those kinds of things. I think we have to start looking within before we start looking at some of the other things as well.

Mr. TAYLOR. Representative Maloney, you have certainly offered us a target-rich environment to choose from. There are many things that come to mind, but perhaps the first and most immediate thing which probably is never considered in this Congress—and it is not surprising; it is a radical departure—is instead of constantly obsessing about how to regulate the regulators and rewrite the rules upon which they make the law, I think we need to get rid of them.

The idea that Congress should be delegating law-making power to the executive branch is constitutionally abhorrent and it is contrary to everything that we know about democracy. Of course, in the 1930's, we decided that this was constitutionally OK, but in retrospect, I think there is certainly a good argument to be made that the only difference between a regulation and law is who writes it.

Supposedly, the only people who are supposed to be writing the laws are people I get to vote for. It is amazing to me, as it probably is to you when you are on talk radio and a constituent calls up and says, I am very upset about this auto inspection maintenance program I have to live with now, or I am very upset about this or that regulation, who could I talk to? It should be painfully obvious who they should talk to. If it is a Federal law, they should talk to their Congressperson because they are the ones who are supposed to be writing the law. But instead the answer more often than not is: Talk to Mary Nichols; she is an Assistant Secretary at the Environmental Protection Agency. But of course you probably can't do that unless you are a $100,000 lobbyist or a member of a trade association.

I think that this idea, though it might seem a bit out of the box, so to speak, was drawn out very impressively by a professor of law at New York Law School by the name of David Shornbrough in his book called, Power and Responsibility: How Congress Abuses the People Through Delegation. Mr. Shornbrough, interestingly enough, was one of the founders of the National Resources Defense Council; he was one of their senior attorneys through 1979; of course, he has come to his senses now, though he still considers himself an environmentalist. The idea that we need to have an army of bureaucrats writing laws and these people aren't accountable to anybody, and back alley deals get to be made in the regulatory process, he finds abhorrent; and the thing he would first recommend Congress to do is stop this whole process. Anything you want on the books, you ought to pass yourselves. If it makes it difficult to pass 30,000 pages of rules for RCRA or something like that, the Founding Fathers probably meant it to be a little difficult to do something like that.

So that would be my suggestion.

Mr. JASPER. You suggested earlier today that contracting out sometimes can be more costly. I think what we have done is put Federal managers in a straightjacket by the detailed controls over full-time equivalents. If I were to have a single choice for Corrections Day, it would be to repeal the full-time equivalent ceilings that mandate a 272,900-person reduction and, instead, to accomplish the same savings through the appropriations process. We would free up managers to figure out when it makes sense to contract out and when it makes sense not to, when it makes sense to have fewer high-grade people or larger numbers of low-grade people. I think that would improve Federal management immensely.

Mrs. MALONEY. Thank you.

Earlier today, two people testified, one for a new—Representative Walker—Department of Science; and another, Secretary Mosbacher, testified for downscaling Commerce, or abolishing Commerce, and having a Cabinet-level person for trade that would handle the trade problems of the country.

I would like each of you to respond very briefly to those two proposals that were put forward by Mr. Walker and Mr. Mosbacher.

Mr. HODGE. I strenuously disagree with both of those ideas, especially on the Science agency, but not exclusively.

Before we begin even thinking about creating a new agency of science, we ought to begin looking at the moneys that are currently spent by the Federal taxpayers on science projects and how—and what sort of results that they have had. You can go throughout the literature and find example after example in which these moneys have not been used well.

A prime example is in the Department of Commerce, and that is the National Weather Service. The National Weather Service, as was mentioned earlier, is currently trying desperately to upgrade its technological capabilities. It is billions of dollars overbudget and behind schedule. It is currently the largest purchaser of those old vacuum tubes—remember, the ones we used to take to the grocery store to test back in the 1960's? It is the second largest purchaser of that in the Nation.

I think that terrifies me if I am sitting on a runway waiting to take off and that pilot is now relying on weather predicted by 30-year-old technology. We have to be extremely careful of that, I think, and look at those very critically.

And the same, I would agree that we don't need a Department of Trade. We can have small sub-Cabinet-level agencies to manage our international trade negotiations. Carla Hills and Mickey Kantor have done quite fine jobs, and I think that we could leave it at that.

Mr. TAYLOR. I have to very much agree with my colleague from the Heritage Foundation. I think both ideas are terrible, horrendous, would do so much harm that it is amazing that after November we are still talking about creating new Cabinet Departments.

Look, consider for a moment the Department of Science. It can't possibly work. Government cannot possibly better manage the resources of the private sector than the private sector. If it were the case that somehow all we needed were a lot of Macintosh computers in Washington and smart people like Bob Walker, and that somehow they can make better decisions than anybody out there in the private sector who is trying desperately to find ways to make money and new ideas and new profits, if that were the case, then we would have lost the cold war. The West Berliners would have been going to East Berlin and the Soviet Union economy and technological advances would far outstrip anything we have seen, because these were societies that operated on that principle, and it fails dramatically.

It is not because we have had unwise people at the Department of Energy making these investments. It is not because we have had ignorant Congressmen. It is not because we have had people with bad intentions. The problem is that there are systematic government failures that prohibit government from better allocating resources and that is not going to change because the Republicans are in power. And it is not going to change because we have a nice management plan.

The record of Federal R&D investments is pretty clear. In the Energy arena, we spent $80 billion in the past four decades and the only significant research advance we have to show for it besides TANK is the light water nuclear breeder reactor, which has not had much commercial return yet because nuclear power, for a number of reasons, is a rather dead option in this country.

On the Commerce question, to suggest we need a Department of Commerce is to suggest that business could not conduct—that Corporate America couldn't conduct—business without the government somehow helping them; and frankly, I don't think it is the appropriate role of government to tell people that they are forced to hand over their taxpayer's money so we can help, for example, Wal-Mart, which is in line to get $100,000 from the Department of Energy this year to put up photovoltaic lights in California. That is just abhorrent. I think that is one of the reasons we saw what happened in November.

Mr. JASPER. As I said in my prepared statement, I do not think a Department of Science makes good sense. I, of course, hadn't seen the details of——

Mrs. MALONEY. I quoted you earlier.

Mr. JASPER. Yes, I heard. Chairman Walker's bill, I believe, has still not been introduced, so I was learning some of the details of his proposal when I heard his testimony today. But, in fact, some of his proposals do involve programs that are now vested in Cabinet Departments, such as many in the Commerce Department. I presume his premise is the Commerce Department wouldn't survive; therefore, he wasn't taking it away from a surviving department. But I think there are better ways to deal with those functions of the Commerce Department.

For example, I would put much of whatever survives from NOAA, again after we see what this Congress does with its programs, in a Department of Natural Resources, which I think would improve the management of natural resources immensely.

We have, as you probably know, a virtual checkerboard of public lands between Interior and Agriculture, so you can drive across many States of this Nation and alternately find yourself under the jurisdiction of the Agriculture Department and the Interior Department as you move along.

So I would favor other sorts of rationalizations of functions than the creation of a Department of Science.

As to a Department of Trade, I think that the need for a U.S. Trade Representative in the Executive Office of the President may be passing, with NAFTA and GATT behind us. If we get over the hurdle of trying to force Japan to open its markets a little bit more—and I think we ought to wait to see if that is successful—we could probably merge the USTR with either Commerce or State or some combination of the two.

If you wanted to rename the surviving Commerce the Trade Department, that is OK, but I certainly would not create a new department besides the Commerce Department.

Mrs. MALONEY. Thank you very much.

Mr. HORN. Let me get a few things in for the record.

I ask that we put in the record at this point papers relating to the President's departmental reorganization program, the reference compilation dated February 1972, with the executive departments under President Nixon's departmental reorganization programs. The material from page 25 and then the individual charts of the various departments, particularly the Department of Natural Resources. We can work that out with the staff.

These were ideas that, 23 years ago, frankly made a lot of sense. What they left were five Cabinet Departments of the existing ones, and then created four new ones to merge a lot of the functions.

Interestingly enough, four of the five were the departments that were in President Washington's first administration Cabinet when they met in New York. As you will recall, they were the Department of State, Department of Treasury, Department of War—this would be Defense—and the Attorney General. The Attorney General didn't even have a Department of Justice in those days, it was just the Attorney General.

If you go to the President's room in the Senate, you see their faces on the wall. These were the four people that ran the government when George Washington went home to Mount Vernon every summer, and they ran it much like the British cabinet. They made the decisions, policy was carried out, they told President Washing-

ton what they were doing, and that was probably the last time the Cabinet ever met on a regular basis, except for President Eisenhower's administration.

Well, if you take a Department of Natural Resources, there is only 30 percent of Agriculture left that is dealing with agriculture; 70 percent is in nutrition programs, commodity programs that aren't related to agriculture. They could easily go in a Department of Natural Resources, which they do suggest, but they decided not to break that down.

It has been said a lot of this is constituency politics. When a Democratic administration is in, they like to be able to appoint an "old buddy" Secretary of Labor. When a Republican administration is in, they like to appoint an "old buddy," that has helped them in the campaign, the Secretary of Commerce; and so it goes. Everybody likes appointing their favorite farmer that helped them carry the Iowa primaries in agriculture.

So we know we have those battles, as well as the turf battles of various congressional committees.

I am interested in really just one question. To me, Presidential accountability is very important, and the importance of executive agencies relating to the President in some regular way is very important. And what has bothered me is if we just limit it to a few Cabinet Departments, we are going to create all these independent agencies floating around there.

Well, let's not kid ourselves. The President of the United States doesn't have the time to worry about a lot of independent agencies floating out in the organizational air somewhere. It is either going to be a White House assistant, or their budget examiner in OMB that you will give policy guidance. I think that is a real problem in a democracy.

We elect one President to be President of all of us, and whether we like the President or don't like the President isn't the point. He is the Chief Executive Officer of the United States, and the question is, what kind of tool does he need to get a responsiveness out of the bureaucracy? Having served a number of Presidents of both parties, in one function or the other, I feel for any President trying to get control of the American bureaucracy and the American Congress subcommittee structure that is related to the American bureaucracy. That is a very hard iron triangle, as the political science books say, when you include the lobbyists, to try to break anything and get something done on behalf of the people. And many Presidents have blunted their pick, as was said earlier today, trying to do some of these things.

So I would be interested in your comments. If we get rid of a few departments, and we might well, and reorganize a few others, realizing that the President has at his pleasure the right to ask anybody he wants to sit with him in a Cabinet meeting, how do we relate all those independent agencies back into some responsive mechanism with the President that the people have elected?

As you know, we separated the Social Security Administration out of HHS. They have an independent Commissioner. I suspect the President would see the Commissioner of Social Security. I am not so sure the President has the time to see dozens and dozens of others who are going to be floating in the ether somewhere. I

would welcome your thoughts as to how we resolve that accountability problem.

Mr. HODGE. It is a very serious question. Our feeling is, and the way that we approached the restructuring of government that is outlined in our book, is that agencies that have Cabinet status should have a purely national interest, and that is why what is left in our government restructuring are the original State, Defense, Justice and Treasury, although we do have—HHS is left over, which I think the Founding Fathers would be sort of perplexed at HHS.

But anything that is not truly national in scope does not deserve a place at the Cabinet table. That does not mean, however, that the President is not accountable. I think you could develop lines of communication and accountability to those rather minor sub-Cabinet-level agencies, and certainly the President ought to have the ability to fire the directors of those agencies or meet with them weekly. Thursdays for instance, could be independent agency managers day, in which they come in and have their sub-Cabinet-level meeting.

I do think that there are ways around this, but I think that if we are going to be true to the intent of the Federal Government, and that is to have jurisdiction over truly Federal responsibilities, then those who sit at the Cabinet level should be in agencies that truly are national in scope and are not things that are the more mundane or routine functions of government.

Cutting checks at the Social Security Administration is not something I think that deserves Cabinet level status. It is a routine function of government, sort of like ADP; all they are doing is cutting checks, there is no policy. This institution sets the policy for social security, and I think that they don't necessarily have to sit at the Cabinet-level table.

Mr. TAYLOR. I would agree with Mr. Hodge, with the chairman's implicit bias that it is not necessarily a good idea to go out and create a bunch of new independent agencies. I would suggest that whenever you see a reorganization plan that does so, I would be very, very suspicious because it leaves unexamined some very important questions.

First, most of what these agencies do is, I would suggest, in light particularly of the Lopez decision, rather questionable on constitutional grounds. The document of the Constitution is one of enumerated and limited powers. You would strain all day to try to find where in the Constitution the Federal Government is empowered to give somebody money to help invent a new widget. It is not there. Article I, Section 8, specifically gives the government the power to pursue scientific endeavor; but then specifically says how it can go about that, through the patent process, and that is it.

Now, if we want to amend the Constitution to do those sorts of things, wonderful. We have a Constitutional fight. But the idea that somehow this affects interstate commerce and thus is a constitutional undertaking, I think was ripped apart fairly nicely by the Supreme Court and might be an issue we need to return to in the future.

Second, in response to Representative Maloney's questions, I think that handled that as well; a lot of these administrative functions are not enforcement functions. It is mostly lawmaking power.

EPA, for the most part, writes the law, and they do so with certain delegated guidelines, but they go about making the law. And one of the reasons, I submit to you, the American people are so furious at their government is they feel that they are subjects of some Mandarin bureaucratic collapse; they don't know who they are; they can't possibly influence them, they can't talk to them; their representatives can't seem to do anything about them. You call up your Representative, say, Why in the world do I have to live under this ridiculous auto maintenance inspection program? They say, Blame EPA. They talk to EPA; oh, blame Congress. Before you know it, no one is accountable for anything that happens. I think that is the root of a lot of public rage at the Federal Government.

It could be nicely solved by simply saying, look, these agencies that make the law shall no more do so. They will enforce the law and that is it. So I think the real question is the scope of government power, not the organization of its exercise.

Mr. JASPER. A few quick questions. As you suggested earlier, Mr. Chairman, the Cabinet really is mostly irrelevant, as an institution, since the Eisenhower administration. It has met very infrequently and one can understand why. There are relatively few issues that would interest or involve all of the members of the Cabinet. Most of the work that is done at the White House level in coordination involves subsets of the Cabinet.

However, departmental status does matter. It matters because with greater visibility, prestige and stature, you may attract someone of greater renown and accomplishments. Cabinet members are more likely to take calls from other Cabinet members than they are from heads of independent agencies and so forth. So the stature and visibility does have some importance.

With respect to the large number of independent agencies, I think that is part of the problem. I suggested in my statement that probably one could do some substantial consolidations there. I do want to note, however, on the political front, that in the 1964 Price Committee recommendations, which I refer to in my testimony, we had proposed a number of such terminations. President Johnson reviewed the report and said, I am not going to abolish that agency and he was asked why and he said, "Every President needs an agency with jobs for slobs."

So you will have some political hurdles to overcome, not only in the Congress, but in the executive branch, when you want to abolish some of these non-Cabinet agencies. However, it can be done. As I said, however, I would urge it be done as part of a rational scheme, not just willy-nilly, because we can pick one off here or one off there.

I think if we had a commission that reviewed the whole executive branch structure, we could probably rationalize it somewhat.

And finally, in that connection, part of the rationalization, as I suggested here 2 weeks ago, is greatly to reduce the number of political appointees. I don't think the problem is controlling the bureaucrats. The bureaucrats are eager to take direction from an incoming administration. The problem is that a lot of political ap-

pointees have their own agendas which are not necessarily the same as those of the President. If the President had fewer political appointments to make, he would appoint people more carefully, that were more likely to follow his own agenda and be more responsive to his leadership and more likely to be able to have access to him.

Take FEMA, for example. FEMA was a disaster agency in both respects, but it has recovered because the President appointed someone who had two characteristics which differentiated him from a lot of the other agency heads. One, he was personally known to the President from Arkansas; and second, he had worked as the head of the emergency preparedness agency in that State. So he knew his job and he knew his President and the result has been very good for the agency.

Mr. HORN. I think that is a correct assessment, and I think that is a bipartisan view here in Congress that he is the first director that seemed to know what he was doing.

Let me ask you on a related issue that is before this committee that I hope we will do something about this year, and that is the staffing levels at the White House, the executive offices of the various departments and independent agencies.

As I look at corporate reform and university reform, one of the first actions many have done, and I have done it myself, is that you get rid of the surplus staff that are clogging up the lines of communication so that you get a clear line of authority between the chief executive and the particular chief operating officer in the organization.

Now, we really haven't done that as I look at the executive branch; and as I look at it from 1960 to 1995, over 35 years of personal involvement with it, I find we have overstaffed bureaucracies. It is not only the political appointees, it is also many of the career civil servants that are in these jobs. The President would be well served, any President, if they got rid of about half the staff there just as an arbitrary figure. This is just an instinct. A Cabinet officer would be much better off if they cleared out half of the underbrush and had a direct line with the operating officers that have testified before us because they know about their program. I would like your reaction to this.

Mr. JASPER. The difficulty is that the Congress is part of the problem.

Mr. HORN. We are a big part of the problem.

Mr. JASPER. Congress has mandated the Chief Financial Officers. It has mandated the Inspectors General. It has mandated requirements on information technology, and it has proliferated the number of bureaucracies at the departmental levels. And in addition, it then expects those people to ferret out waste, fraud and abuse, so they need more people every year in order to do so. The IG's have become a huge bureaucracy, just as one case in point.

Mr. HORN. Well, I think the IG's and the Chief Financial Officers—less so with the Chief Financial Officers—are generally out of the line of consultation in terms of program operations. What bothers me are all the other people that have a piece of the action.

The first person I would consult if they ever asked me to join a Cabinet would be the IG. He and I would have a long talk, or she

and I would have a long talk, because they should know where all the bodies are buried in those agencies.

Those aren't the ones that worry me, and I think the CFO Act was one of our more creative acts, because frankly, these cabinet departments are a shambles in terms of financial management.

Nobody has paid much attention to it, and as my colleague, Chris Cox, said when we went through this in the 103d Congress, if a corporation brought a comparable document to the IRS, it would probably have the U.S. Attorney indict, because the financial records are the sloppiest I have seen.

But I would be interested in your reaction on how we get at some of this top-heaviness.

Mr. HODGE. I am sort of of two minds of how to manage this problem. While we can decry political appointees, the one thing that we should feel assured about is, at least they are accountable and they can be fired. I think if you talk to anyone working in any Federal Government agency and they are frustrated because there is dead wood littered throughout every Federal agency, people who cannot be fired unless they actually assault someone in the parking lot, and I have a friend who had a secretary who did that and still wasn't fired.

We need to find ways of bringing accountability, both to the political appointees and also to the career civil servants. I don't know if I have all the answers to that, but I think the quicker that we move to bring those kind of reforms to free up agency managers, the better off we will be.

Mr. HORN. Thank you.

Does Mr. Fox, of Pennsylvania have a question?

The gentleman from Pennsylvania.

Mr. FOX. Thank you, Mr. Chairman. In looking to downsizing, is it more important we focus on any individual programs or reducing the Cabinet status of departments?

Mr. HODGE. I think——

Mr. JASPER. I vote for programs.

Mr. HODGE. One leads to the other, I think; and I think that the quicker we can begin reducing the stature of some of these agencies that no longer, I think, serve a national purpose, the quicker that we can get to the programs underneath them and start ferreting out some of the obsolete, inefficient and outmoded programs that they, in turn, manage.

Mr. TAYLOR. I think examining programs should be the first responsibility.

For example, at the Department of Energy, after you eliminate all the programs that appear useless and obsolete or wasteful, you come up with—you have virtually nothing left. Then it is rather easy to decide, well, should the person who had the nuclear stockpile really be sitting at the Cabinet table? Probably not. And it is very hard to justify that operation as a Cabinet activity.

Mr. HORN. Any other comments?

If not, let me thank you for your excellent testimony, and as Mrs. Maloney said, certainly passionate testimony. I would like to thank the staff that has put together this series of hearings. Mark Uncapher to my left; and to your right, professional staff member and counsel to the subcommittee, Don Goldberg, and Mark Steven-

son of the minority staff; and also to the subcommittee staff director, Russell George, and the rest of the professional staff, Mark Brasher, and Mike Stoker, counsel, for this morning's hearings; and of course our official reporter, Jody Goettlich. Thank you very much for being here.

The session is adjourned.

[Whereupon, at 5:43 p.m., the subcommittee was adjourned.]