CONSOLIDATING FEDERAL PROGRAMS AND ORGANIZATIONS

HEARINGS

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 FEDERAL PROGRAMS AND ORGANIZATIONS

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 10 a.m., in room 2154, Rayburn House Office Building, Hon. Stephen Horn (chairman of the subcommittee) presiding.

Present: Representatives Horn, Flanagan, Davis, Fox, Tate, Scarborough, Bass, Clinger, Maloney, Mascara and Spratt.

Staff present: J. Russell George, staff director; Mike Stoker, counsel; Mark Uncapher, professional staff member and counsel; Andrew G. Richardson, clerk; and Wallace Hsueh, staff assistant.

Mr. HORN. A quorum being present, the Subcommittee on Government Management, Information, and Technology will come to order.

We are delighted to have with us the Secretary of Energy, Dr. Hazel O'Leary, and we intend to explore the likely effects of several different Federal Government restructuring programs and proposals on the Department of Energy.

As we see and hear every day through the news media, the American people overwhelmingly support balancing the Federal budget. On the question of just how best to balance the budget, there are a variety of opinions and proposals. Despite differences among them, the most widely publicized recommendations focus consistently on three cabinet departments—Commerce, Education, and Energy. This morning's meeting is part one of a three part hearing we are holding on consolidating Federal programs and organizations. This morning and next Tuesday we will hear from current and former Education and Energy officials, as well as private sector experts with views on how to restructure the two agencies.

We will also examine case studies of National Performance Review initiatives, try to assess whether they went far enough or are working as intended.

Finally, we will explore what actions or initiatives agency heads such as Secretary O'Leary might consider to go beyond any shortfalls in the NPR recommendations.

Secretary O'Leary is with us today. We will hear and discuss her ideas, the administration's proposal for changing the Department's structure and organization. The Secretary's recommendations will serve as a point of reference for next Tuesday's meeting, at which

we will hear from two former Under Secretaries, three former Secretaries of Energy.

Madam Secretary, we thank you and your staff for joining us. We look forward to your testimony. Let me ask my colleagues and the ranking member in particular, Mrs. Maloney of New York, if they wish to make an opening statement before we swear in the witness.

Mrs. MALONEY. Thank you very much, Mr. Chairman, and welcome Secretary O'Leary. I am pleased you could join us today to explain the National Performance Review initiatives at the Department of Energy.

As you know, I am a big supporter of the National Performance Review. It is a serious attempt to look at what the Government does and ask how it can be done better and more cost-effectively. We have seen great strides and improvements in Government procurement, which have saved millions of dollars, and we look forward to hearing your statement today.

Later today we will hear testimony from a number of witnesses who want to abolish one or another department. As you know, the Department of Energy is on many of those lists. I am concerned that many of these proposals are more the subject of fashion than investigation.

It is relatively easy to call for abolishing a cabinet level department, but between that call and reality lies a great deal of work. The Department of Energy was created as a result of the energy crisis of the late 1970's. The American public, forced to line up for gasoline, demanded Government action.

The Government action to that crisis made it clear that the Nation's Energy policy lacked the cohesion of unified leadership. The Department of Energy was not created at a bureaucratic whim. It was created because the American public demanded Government leadership in the field of Energy.

But there is much more to our Nation's Energy policy than assuring the flow of gasoline to the pumps. Part of the contract with the public that was written with the creation of the Department of Energy was to clean up a number of places where hazardous waste was dumped.

What are the plans on how this will be handled if DOE is abolished?

DOE also runs the system of national labs which trace their history to the Manhattan Project and the first atomic bomb. Much of the country's weapons research has been done there. What are the proposals for handling energy research if the Department is abolished?

I could go on listing the many functions within the Department of Energy which are important to the country, but the point is whether or not there is a Department of Energy, there is energy policy that must be made and carried out. Deciding where and what happens is not a trivial exercise. We have very little experience with abolishing cabinet-level departments, and for that reason we should move cautiously. That is one of the reasons it is so important that Chairman Horn has called these hearings.

There are a number of questions to be answered: What functions should be abolished? What should be done with those that remain? How do we make sure a unified policy remains in place? How do

we monitor service to the public? But perhaps the first, should this action originate in Congress?

I hope these hearings will begin to address many of the questions that need to be raised, but I have no delusion that these 2 days of hearings with only administration witnesses supporting the Department's will suffice. So far, the selection of outside witnesses has been very one-sided. If we are to carry out our responsibility in this area, it is important that we do it carefully and with balance.

Thank you very much, Mr. Chairman.

Mr. HORN. Thank you very much. I now yield to the chairman of the full committee, Mr. Clinger of Pennsylvania.

Mr. CLINGER. Thank you very much, Mr. Chairman, and Madam Secretary. I want to just welcome you to the committee and commend you on your stewardship of the Department of Energy.

I would also say that I think we here and you share an interest and a desire to make Government work better, cost less, and be more efficient, and I would commend you on the steps you have taken to do that in the Department of Energy. We may disagree on how far that ought to go, and that will be part of the discussion I am sure this morning and in the coming days.

We are embarked on a very controversial, but I think an important debate as to the size and scope and purpose of the Federal Government, and I think there are going to be many areas where we are going to be in agreement. I have had an opportunity to meet with the Vice President, discuss his views, and he has met with our committee, so we hope that we can do this in a cooperative basis, and I am just delighted that you can come before us today and give us your views.

Thank you very much.

Ms. O'LEARY. Thank you, sir.

Mr. HORN. Thank you, Mr. Chairman.

Mr. Mascara from Pennsylvania.

Mr. MASCARA. Thank you, Mr. Chairman.

I want to commend you at the beginning for holding these series of hearings on making government work. I must say at the onset that I am opposed to the meat axe approach my Republican colleagues have indicated they want to take to make changes in many programs in the departments and eliminating some of them. Nevertheless, I am hopeful these hearings will at least provide some discussion of ways to turn this meat axe approach into a more clearheaded path for reforming departments and agencies.

I concur with the assessment that the American people have sent a clear message that they want their Government at all levels to modernize its functions. They want Government to be yanked into the 21st century, and they want it to provide the essential services the public requires, in the most efficient and sound method as possible.

But I do not think that means that they want us to leave them with a shell of a government. Nor do I think that means we should be dismantling departments and shuffling vital functions to another department or agency only to end up saving taxpayers pennies rather than the promised millions and billions of dollars. Because I believe Government needs to be reformed top to bottom, the

President and the Vice President should be commended for their sincere and thoughtful efforts to reinvent Government.

I only wish that we would give departments and agencies time to complete their own reviews rather than pushing them off the plank without receiving a fair trial. I must also say I concur with the comments made by my Democratic colleagues that it is unfortunate that this hearing could not be held prior to the Budget Committee action on the fiscal 1996 budget resolution.

I fear the die has already been cast and any comments of support for the Departments of Energy, Education, and Commerce will fall on deaf ears. I am afraid this will turn out to be another situation where even my Republican friends will pray the Senate once again demonstrates some restraint.

I must also indicate I regret that the panel of witnesses that will present testimony is not more balanced. Surely the committee staff should have invited respected scholars from a more nonpartisan institute such as the Brookings Institute. They surely would present a more unbiased and forthright assessment of the agencies in question and the importance of their historic functions.

Finally, I must admit I have a parochial interest in today's session. The reorganization plan recently announced by Secretary O'Leary calls for consolidating the administration and management of the Pittsburgh Energy Technology Center with a similar facility located in Morgantown, WV. The Pittsburgh center, located in my district, employs some 300 people and performs premier research into clean coal technology.

I must say, Madam Secretary, that in two of the five counties that I represent, there are nearly 8 billion tons of coal reserves. This certainly has to be a factor in determining whether this center would stay open or not.

While I am obviously concerned about retaining jobs in my district, above and beyond that I think we should not willy-nilly abandon such important research efforts. The American people would certainly not be well served if this is the end result.

Thank you, Mr. Chairman.

Mr. HORN. Thank you. I now yield to Mr. Fox from Pennsylvania for an opening statement.

Mr. FOX. Thank you, Mr. Chairman.

Again, I would like to echo the comments of my colleagues regarding your leadership on moving these issues forward, and I am grateful for the efforts that you and your subcommittee have taken. I know that Chairman Clinger feels the same way. I realize that today's hearing will be in three parts to consider proposals for restructuring the programs and functions of the Departments of Energy and Education, this morning's hearing focusing strictly, of course, on Department of Energy.

Mr. Chairman, there is widespread belief that the Department should be reorganized and restructured. The Department of Energy was originally created to deal with the Energy crisis the country experienced in the 1970's when we had gasoline lines and natural gas shortages, for example, and the prospect of inevitable energy shortages and ever-increasing energy prices.

The crisis, however, is in large part the result of price and allocation controls imposed by the Federal Government. As President

Reagan then observed, the country suffered not from a shortage of energy but from a surplus of Government. The Federal oil price and allocation controls made it illegal, literally a Federal offense, to move gasoline around the country when supplies grew tight.

Gasoline lines ended after these controls were dismantled in 1981. During the 1980's market-based energy conservation worked quite well. The economy grew one-third and energy use remained flat. However, the Department of Energy spent more than $55 billion for energy research alone.

It is therefore reasonable to ask whether the country has received a full and fair return on that investment. Various proposals have been made to transfer, reorganize, privatize or otherwise sell off those functions. With these proposals in mind, I am anxious to hear from today's witnesses. I particularly want to welcome, along with my colleagues, Secretary O'Leary to the subcommittee and look forward to hearing her testimony.

Thank you again, Mr. Chairman.

Mr. HORN. I thank the gentleman. I now yield for an opening statement to the gentleman from South Carolina, Mr. Spratt.

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

The issue before us, as I see it, is not whether we will kill the agencies that this Department encompasses. What we are talking about if I can use a ghoulish metaphor, is to decapitate the Department and take its dismembered parts and graft them on to other agencies and departments of the Government. So that raises the question, if what we are about is saving money, is whether it saves money, how much do we save by decapitating the Secretary of the Department of Energy and then taking its dismembered parts and grafting it on to other Government agencies?

I would like to know the number, because I fear that what we will do if we disrupt the Department, first of all, we will disrupt an ongoing program for restructuring to save money which is in place and has already produced results. We have seen in South Carolina, 4,000 man layoff at Savannah River.

If we transfer these dismembered parts to other agencies, it will inevitably take the other agencies some period of time, maybe a year, maybe 2 years to get on top of their new management responsibilities and implement the same sort of cost savings and personnel reductions that this Department already knows that it can undertake.

Second, I am concerned that one of the major undertakings of the Department on the defense program side right now, there are two, one is stockpile stewardship, an alliterative title for trying to move from an area where we have an active weapons development and active nuclear testing program to a program where we keep the core knowledge, the corporate memory, the institutional ability that is necessary to maintain a nuclear arsenal without doing the things that our nuclear complex has done for the last 50 years to maintain its expertise and attract the talent it needs for the future. This is a critical undertaking.

If we disrupt the progress of it, particularly at this point in time where there is no testing, then we may suffer the consequences for some years to come.

Third, this Department manages one of the Government's largest contingent liabilities. That liability ranges from $400 billion to $1.4 trillion, $1.5 trillion, depending on whose estimate you use and how zealous we are about cleaning up the legacy of 40 to 50 years of nuclear materials production. Those of us who live in States where this legacy is a negative legacy know only too well what its consequences could be if we don't forge ahead with environmental restoration, environmental management, waste management, all of these things that the Department has been doing in earnest. I chaired the subcommittee that marked the budget, presented the authorization budget for this Department on the DP side for the last 4 years, and we moved more money into the environmental restoration, more money into environmental management only to pull back and say this is enough, this we think is about all they can sensibly manage. They are doing a good job.

Tom Grumbly, I think, has come to grips with this problem as well as anybody who has undertaken it. Now if we dismember the Department, if we abolish the Department, people like Grumbly, I can't speak for him, but people like him may decide it is time to look elsewhere, so we lose this whole generation of talent and start over again in another department, we lose a couple of years, we lose a grip on the problem we have got now.

Now for this disruption which has real dollar consequences, I want it to be shown in this hearing how much money we are going to save by decapitating the Department and savings from overhead costs. I am not convinced this is a good deal.

Thank you, Mr. Chairman.

Mr. HORN. Thank you for your very helpful comments.

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

Mr. DAVIS. Thank you, Mr. Chairman.

I appreciate your holding the hearings and I particularly appreciate Secretary O'Leary appearing here today.

Frankly, I am going to associate myself with some of the remarks today, but I am concerned about the haste with the wholesale elimination and the dismantling of Federal agencies acting in haste here before we have really considered what their functions are and what does congressional micromanagement mean in these particular cases.

It is one thing to talk about eliminating an agency, it is another thing to say what is going to happen to those functions, what is going to happen to the full time equivalent employees, who is going to carry out those functions, what are the messages that we are sending for the morale of the employees that are left that we are asking to do more with less.

I think all of these are questions that need to be carefully considered before we proceed to act in haste. If we are going to do more with less, the morale of the existing employees is very, very important.

I appreciate the actions Secretary O'Leary has taken proactively in terms of saving money to date. I still have some questions about that, but I think we need to approach this as partners in efforts to downsize and right size government, but at the same time maintain its core functions and to act precipitously I think would be a major mistake.

I appreciate your being here today and look forward to the dialog.

Thank you.

Mr. HORN. I now yield to the gentleman from Washington, Mr. Tate, for an opening statement if he wishes.

Mr. Tate does not have a statement. Mr. Flanagan, the distinguished vice chairman of the subcommittee.

Mr. FLANAGAN. I thank the distinguished chairman of the subcommittee.

I want to thank you for calling this hearing today in regard to the restructuring of our cabinet departments and changing the way in which Government services are delivered. With several departments facing major restructuring efforts, it is essential that we identify the services with which Government should be involved in delivering.

In making that judgment we must not only decide how those services or functions can be delivered in the most efficient manner, but we also must be careful to manage competent distribution of the services that fall outside of the government's realm of responsibility and to guard against unacceptable lapses in services.

Today's testimony will not only be informative but critical in the development of the legislation that help define Government's role in providing assistance to the public. Secretary O'Leary's understanding of the usefulness of the tasks performed by the Department of Energy is certainly valuable as we are faced with specific budget cutting plans that propose the elimination of this Department altogether.

Congress has to make tough decisions in making a genuine effort to bring the budget under control and with entire departments on the chopping block, the more informed we are before we make those decisions, the better off we will be.

Thank you, Mr. Chairman. I yield back.

Mr. HORN. I thank the gentleman.

Let me say before we turn to Secretary O'Leary, I want to clarify the record. I heard some language that said decapitation and other things. Speaking only for the chairman and myself, the chairman of the relevant subcommittee, neither one of us have ever commented on wanting closed any of these three departments. We are completely open on it.

Just to get the record straight, I happened to head a national coalition to establish the Department of Education. I have my problems with some of the administration of the Department of Education under several secretaries. That doesn't necessarily mean I favor the dissolution of the Department, and it doesn't necessarily mean I would favor keeping the Department.

I think this is a chance led by Vice President Gore and the National Performance Review to take a look at Government. Thomas Jefferson was often quoted as saying every 20 years maybe we ought to have a revolution in the Government.

Well, in a sense we are having a peaceful revolution just looking at what are we doing, how are we doing it, who should do what, and which agency should do what the President and the Congress think the American people need to have done at this point in time, and also obviously what the American people think about it.

Now, we have a tradition, Madam Secretary, that we put all our witnesses under oath, even cabinet officers, so if you don't mind standing and raise your right hand.

Ms. O'LEARY. I don't mind. I would be delighted to.

Mr. HORN. Do you solemnly swear that the testimony you will be giving before this subcommittee will be the truth, the whole truth and nothing but the truth?

Ms. O'LEARY. I do.

[Witness sworn.]

Mr. HORN. Thank you very much.

Ms. O'LEARY. Certainly.

Mr. HORN. We will put your written statement in the record at this point, and then we would like you, as you and I talked on the phone, to look us in the eye, talk from the heart, as opposed to a summary of that statement and then we will have questions for 5 minutes each, and we will alternate between sides, majority and minority, and we will stay as long as you can stay.

STATEMENT OF HAZEL O'LEARY, SECRETARY OF ENERGY

Ms. O'LEARY. Thank you, Mr. Chairman, and members of this committee. I would first request that the folder which is at your desk containing hard copies of overheads which might further illustrate comments that I make be appended to the record, and I will, as always is my practice, avoid reading anything.

[NOTE.—Due to high printing costs, the information referred to above can be found in subcommittee files.]

Ms. O'LEARY. First of all, I would like to commend the committee for its very thoughtful approach to these issues. Many people have surmised that perhaps a budget process is not exactly the most appropriate process to examine missions and functions in Government and determine where they might best serve the constituents and their customers, the American public, and so this hearing, full and rich and examining questions of management and cost savings and missions I believe is very important to illustrate what many understand should happen, and that is that the Government must deliver its services in a much more cost-effective manner and perhaps most importantly it must deliver services that its customers, the American public, wants.

I would like to begin by stepping into deep water because I find that I must correct some members of this august panel. I would like to go back to the history of the Department of Energy, and I want to point out that first of all I was there. I had the honor and the distinction and often the pleasure of working for Jim Schlesinger, the first Secretary of Energy.

Interestingly enough, I was also a part of the Nixon administration and the Cost of Living Council which first established price controls on energy supplies. So the supply control of energy occurred in the Nixon administration for the first turn, not the Carter administration, but more importantly, I think I need to correct for the record the missions that were assigned to the Department of Energy at its inception, and I do mean I helped craft some of that legislation.

It pulled together the functions which have been described by Congressman Spratt, those national security functions that then in-

volved the manufacturing and the design of nuclear weapons, and that was the major function of the Department of Energy, having moved its assignment from first the Atomic Energy Commission, then to ERDA, and finally to the Department of Energy.

At the very last moment when that piece was being pulled together, it was determined to also add the energy functions because it appeared appropriate since much of the work being done in the Energy Research and Development Agency or ERDA addressed questions of energy supply and energy efficiency. From that center comes what are now and have always been the missions of the Department of Energy.

First of all, grounded in science and technology, well known to all by the three national weapons laboratories—Lawrence Livermore, Sandia, and Los Alamos—but also augmented by the 10 large multipurpose laboratories and then the addition of some others that do specific and very focused engineering or work in energy technology and fossil energy. That is the heart and the soul, the complement of the Department of Energy is its basic science and its applied science and technology which serves the other mission areas. National defense, which had at its inception been focused on, as I have indicated, our national security requirement to keep us safe and win World War II and finally to win the cold war at the end of the last decade.

In addition, the cleanup mission of the some 2.4 million acres of land that the Department of Energy now owns and used for the purpose of manufacturing and testing those weapons has become the larger share of our assignment. That is because in the early days, through the 1950's, and into the late 1989 when finally the paratroopers stormed our Rocky Flats facility because the issues of husbanding the environment had become so critical to the safety of the workers at that facility, the Justice Department came in to take control of what was happening there. At that point the focus both in the public and in administrations became how do we clean up after the winning of the war, the two wars.

The other mission which is well known is the energy mission. That mission never was exclusively command and control of the energy sector, but always had engaged itself in the development of precompetitive technology to improve energy use and to address questions of pollution control and also economics. I thought it was very important to outline those missions because I believe, as does the public, most recently shown by a Harris Poll where 64 percent of the American citizens questioned determined that the functions of the Department of Energy ought to be performed in the Department of Energy, but they asked for what I believe we have been attempting to deliver, which is a more cost-effective and business like management of the Department.

I now want to move on to that issue, and I would also ask you if you have a moment, it might be useful to look at page No. 3 in the folder that I have provided for you. That page outlines a continuum that shows that this Secretary of Energy began to address the questions of the Department's strategic mission post cold war early in the summer of my first year, and I involved the entire Department, its laboratory directors, its contractors, and its full time Fed-

eral employees in the determination of what ought to be our functions, given the mandates of the Congress and our administration.

I tell you this because it is important for you to understand that I believe for the first time in the history of the Department of Energy, I repeat I was there, but the Department of Energy's employees understand their work and more importantly they have measurable and deliverable goals in each one of these four business lines, and that has set the foundation for the work we have done now with the Vice President that has been called National Performance Review.

I would go further by pointing out to you that this review has involved, I believe, not only the mission but the business of running the Department of Energy. My friends from Wall Street tell me that if it were a Fortune 500 holding company rather than a Government agency, it would be Fortune 2700.

I have attempted with my business background to run this company just as though it were a business, with accountabilities and looking at cost. The first thing we did within the first 2 months at the Department was to freeze contractor salaries because we have discovered that they were above their market rates in the regions. That brought down a savings of $1.5 billion projected over 5 years, I think that is rather dramatic in Government. We went further.

We were aware of the fact that the contracts in the Department had been let simply cost-plus, which encourages our contractors to simply charge us as much as they can for performing the duties that they take on without any negotiation with respect to what price that should be. Not even a homeowner would have a bathroom remodeled and do the same thing.

We have simply applied common sense business practices to the way we now conduct our business with our contractors who do most of our work such that in the two contracts that have been relet this year we can project $3 billion in savings simply from managing the thing like any homeowner would.

I don't want to go through this entire thing, but if you will look at the list here you will see that the Department of Energy has engaged imminent industrialists, energy economists, all to help us not only understand how we manage the place better but more importantly how we deliver product to the American public in our four mission areas that make sense and cut costs.

I now want to move to those cost cuttings. Well before the Congress began to delve in these issues, we made a commitment to our administration that we could cut the Department of Energy's budget by $14.1 billion over 5 years. That is in addition to the savings I have already outlined. The way we propose to do that if you will simply look here at the chart displayed and if I am very fast I can tell where you it is.

Mr. HORN. Page 6.

Ms. O'LEARY. Thank you, sir, you are very fast.

It will give you a look in the center at the line option for the Department of Energy as to what the Department is itself proposing. First of all, we are proposing the sale of those inherently private sector functions that we understand that the Government ought not now undertake. That would include the sale of the majority of the power marketing administrations which simply provide the

transmission and the distribution for electricity moving into small cities and communities in the United States of America.

The savings there would be in excess of $3 billion. In addition we are proposing the sale of the petroleum reserves which back in the beginning of the 21st century it seemed important as the Navy was being propelled using petroleum that the Government have its own supply. I think we are clear now that the Government really ought not be in that business and what those of us who have been in that business understand is that the Government requirement for simply taking the capital from that venture and putting it into the budget does not give you the best production out of that facility, so we are proposing a sale there.

We are also proposing the sale of high enriched uranium which is in excess, and that money should go back to the American taxpayer. Add to that the alignment which was announced earlier this month, and you will come up with a figure in excess of $7 billion.

If you would add to that figure the $4.4 billion that we have already committed to save in our weapons cleanup program, you can see that we are well above $10 billion and almost approaching $11 billion in the commitments that we have made to find savings. In addition to that, what remains to be done is a report I am looking forward to receiving from Daniel Yergin, an eminent economist who also is a Pulitzer Prize winner, having written several books on energy and its foreign policy implications.

He and any number of other industrialists, academicians, scientists are going to help us determine how we suck from this budget $1.2 billion out of our applied technology programs and the idea there is to save the best, but that is truly not precompetitive, that the private sector can and will do alone ought to be stripped from our budget. We are prepared to do that.

The other remaining item to be delivered is to further deliver on the $1.4 billion that we are committed to save resulting from the work that Bob Galvin, the former chair of Motorola did for us in that task force of private citizens that took a look at our 10 largest laboratories. We have now booked $300 million there and what I owe and can deliver by the next budget cycle is $1.1 billion.

I would say in sum that I doubt any other secretary of any cabinet agency has taken the time to not only understand the mission but to apply to it the business practices that I have had the privilege of learning in the private sector.

The other thing we bring to this party, I believe, is a true understanding that you don't simply cut budget by mindlessly whacking program. We have tried to manage well, we have identified opportunities for savings in areas like travel, in areas such as sale of assets.

We found after 1 day the Secretary acting almost like a grandmother decided it was time for spring cleaning, and it occurred to me that no one had ever taken a look at the Department of Energy's warehouses to find out what was in there.

Well, guess what we found out? We have 10,000 pounds of precious metal, plutonium—I am sorry, platinum—it is interesting how involved I am in this work—platinum, gold and silver, which ought to be sold in commodity markets, and we found someone to help us do that and not depress the market. We have also found

5,000 tons of semiprecious metal—copper, stainless steel, aluminum—which people were simply holding against some occasion that they would need to use it.

Well, that is not just in time warehousing nor management of supplies. We have applied both a practical look, a business-like look at the Department of Energy, and I quite frankly would challenge anyone to take the time as we have done over the past 2 years to understand this Department, to understand its motivation.

It has been mentioned that Tom Grumbly, who heads our Environmental Management Program, has really got a grip on things. Well, the reason he has a grip on things is because I have told him he needed to have a grip on things, and what needs to happen in these agencies is you need to manage to mission.

We understand our mission, we understand that the mission overall drives the economy of the United States of America and the technology that we have delivered in partnership with the private sector that well exceeds advantage to the American public in jobs, in competitiveness internationally that well exceeds what we have spent in the budget on our R&D side.

This is an important mission, one which I believe will be disrupted if we simply apply the abolish approach. I was there when the Department of Energy was pulled from bits and pieces, and I will tell you that it was 2 years to settle down.

The work that we have before us, both with respect to replacing nuclear testing with the use of scientific proxies for testing requires a continuum of thought, discipline, and leadership and should we fail in this task, then we place ourselves in the position to walk away from what was done at the U.N. last week when we signed unconditionally the nonproliferation treaty which gives us an opportunity to go at a zero option for nuclear weapons.

More importantly, in the mission of cleaning up from the dismantlement of nuclear weapons, we have applied an approach that requires both the observation of the safety of the workers at the plant and keeping to mission which means that we have to dismantle these weapons on the timetable that we have committed and the treaty that the Senate has ratified. These missions cannot be walked away from.

If you would like another crucial mission, I will tell you it is in the area of nonproliferation where the Department of Energy has the leadership both in terms of the technology know-how and also the policy forcing to ensure that not only is nuclear weapons material safe in the United States but working with our colleagues in Russia and through the International Energy Agency to ensure that there will be no loose nuclear materials sold from the backs of taxicabs in Pakistan or other places in the world.

These missions are critical, and 2 months ago I simply defended the missions of the Department of Energy. On May 3rd when we announced this final piece of our alignment, I told my colleagues at the Department of Energy that I am now the advocate for the continuation of this agency because I understand its missions, its people are pulling together, and we will accomplish this downsizing which will take 3,788 real human beings, not FTEs, not employees, but real souls off of our rolls, and I believe it needs to be done in the most humane fashion with a clear guide to ensuring that the

people who remain to do this work stay committed to these very important missions that affect our national security and our economic security.

You asked that it be from the heart, Mr. Chairman, it was from the heart, and I hope that it had enough fact in it to drive to the important questions that I know this committee would want to ask.

Thank you very much.

[The prepared statement of Ms. O'Leary follows:]

PREPARED STATEMENT OF HAZEL O'LEARY, SECRETARY OF ENERGY

Mr. Chairman and members of the Subcommittee, I appreciate this opportunity to testify about the missions of the Department of Energy and about our plan to deliver improved performance, a 27 percent reduction in employment, and more than $14 billion in deficit reduction over the next five years. I commend you for embarking upon this ambitious and important set of hearings to address how we—Congress and the Executive Branch working together—can meet the imperative of creating a government that works better and costs less. At the Department of Energy, we are meeting that challenge head on—and have been for the past two years.

I particularly welcome the chance to testify at today's hearing, which will address the subject of consolidation and restructuring within the Executive Branch.

There has been much talk over the few past weeks about the possibility of dismantling various Cabinet agencies, including the Department of Energy. Last December, when such proposals began to surface in public debate, I took a firm stance regarding the necessity of continuing the Department's core missions in national security and non-proliferation, weapons site clean-up, energy resources, and the science and technology which provides the foundation for all we deliver. I felt then—as I do still—that these missions are inherently governmental responsibilities and cannot be abandoned. What is different today, however, is that I have become a committed and determined advocate for continuation of these missions within a streamlined Department of Energy.

My position has evolved for two principal reasons. First, because we have demonstrated that we know how to cut costs while continuing to perform our vital functions. Specifically, we have already provided the details on how we will deliver—with the help of Congress—$11.5 billion of the $14.1 billion in reductions over five years that we committed to last December. Second, because dismantlement of the Department of Energy would not provide significant savings. While dismantlement of the Department of Energy may provide a symbolic political victory for those who advocate such action, the price we pay may be severe disruption to missions that affect the security and quality of life of millions of Americans.

CRITICAL MISSIONS OF THE DEPARTMENT OF ENERGY

The Department of Energy is vested with public missions that fundamentally affect the security, prosperity, and quality of life of this and future generations. Any discussion about the possible fate of the Department must begin with an assessment of these missions—which I assert will continue whether or not there is a Department of Energy. This is the case, not because of institutional or bureaucratic inertia, but because our missions are vital governmental functions. Our four core missions are as follows:

Protecting National Security and Reducing the Nuclear Danger: The Department's defense laboratories and former production facilities are the Nation's repository of nuclear weapons-related knowledge and engineering competence. This unique and irreplaceable human resource helped to win World War II and the Cold War and will contribute to the security of future generations by:

- Continuing the dismantlement of nuclear weapons, which currently are being taken apart by the Department of Energy at a rate of approximately 1,500 per year. Successful performance of this mission may mean that children in the 21st Century live in a world where stockpiles of thousands of nuclear weapons can only be found in history books;
- Ensuring a safe and reliable nuclear stockpile without nuclear testing, through the use of experimental facilities that simulate weapons. This science-based approach represents a historic and extremely challenging transformation in the Nation's nuclear weapons program. Successful performance of this mission will contribute toward achieving a global ban on nuclear weapons testing;
- Guarding against nuclear terrorism and curbing the proliferation of weapons of mass destruction. With large quantities of weapons-grade materials

throughout the world, the Department's non-proliferation programs are an indispensable investment to help ensure that future generations are not subjected to the horror that would come from a terrorist attack involving a nuclear device. It is not a scare tactic to say that an Oklahoma City or World Trade Center bombing of the future could involve a terrorist's nuclear device. The Department's expertise is helping guard against such a possibility.

Weapons Site Cleanup and Environmental Management: The Department handles some of the most challenging and highest risk environmental problems in the world. Thousands of radioactive and hazardous waste sites in 35 states require careful and highly sophisticated approaches to cleanup to ensure the protection of public health and safety. This program has resulted in the cleanup of 16 former nuclear weapons and industrial sites, cleanup of 14 uranium mills tailing sites, removal of 30 million cubic meters of contaminated soil and uranium tailings, treatment of 2.4 billion gallons of ground water; and disposal of 50,000 cubic meters of low-level waste. However, our Environmental Management program is more than simply cleanup. For example, its responsibilities also include:

- Safely managing 26 metric tons of plutonium, a highly toxic and radioactive material that is a key ingredient of nuclear weapons;
- Reducing the risk of explosion in large, underground high-level radioactive waste tanks; and
- Safely stabilizing, decommissioning, and decontaminating over 7,000 buildings across the former nuclear weapons production complex.

An integral part of the Environmental Management program is a robust technology development effort. New and improved technologies are essential to providing cost-effective techniques for addressing the most complex environmental problems the Department faces. More than 50 new technologies were demonstrated last year, and the recently released Baseline Environmental Management Report estimates that tens of billions of dollars can be saved by developing new technologies over the course of the program.

Science and Technology: The Department is one of the Nation's top supporters of fundamental research across a broad range of scientific disciplines, including physics, materials science, chemistry, and structural biology. Advances in science and technology provide the long-term basis for economic growth, job creation, and our quality of life. The Department's scientific work is world-class and constantly recognized for its excellence. Nearly 60 Nobel laureates performed their prize-winning work through support by the Department or one of its predecessor agencies. Our wide-ranging mission in science and technology includes——

- World-Class Laboratories: The Department operates 29 laboratories that employ more than 25,000 scientists and engineers. The multi-disciplinary, problem-solving culture at these laboratories is tackling scientific challenges as far-reaching as designing superconducting materials that could transform our use of energy, characterizing and modelling all aspects of combustion processes to contribute to new engine designs, and studying the basic building blocks of matter—as demonstrated by the recent discovery of the "top quark" at the Department's Fermi National Accelerator Laboratory (Batavia, Illinois).
- Unique research facilities: Within the Department's laboratories, we operate world-class research facilities that serve more than 15,000 scientists each year from hundreds of colleges, universities, federal laboratories, and private sector companies in all 50 states. These user facilities—including particle accelerators, research reactors, and highly-specialized materials and diagnostics laboratories—are the tools that are enabling American scientists and engineers to explore scientific frontiers that literally could not be reached in any other fashion. While the precise benefits to society of this work cannot be predicted, we know that they will be many—just as fundamental research on the atom in the early 1900s and the discovery of the electron led to the telecommunications industry of today, and discovery of the DNA double-helix in the early 1950s led to the biotechnology revolution.

Enhancing Energy Security: Helping guard against energy supply disruptions and their associated threats to the United States remain fundamental priorities for the Department; The reasons why are clear: By the year 2010, U.S. oil imports will grow to 60 percent of domestic consumption and the Persian Gulf nations will provide more than 70 percent of the world's oil exports—surpassing their peak of 67 percent in the embargo year of 1974. The Department's diverse portfolio of energy supply and efficiency-related R&D helps ensure against future energy crises that could cripple our economy. The Department's energy mission involves——

- High-payoff R&D in partnership with industry and academia: The Department has pioneered high-risk technologies that today are resulting in tens of billions of dollars in consumer energy savings each year. Further R&D aimed

at enhancing the production and efficiency of conventional fuels and developing alternative energy sources must be explored as part of a National program to provide secure, reliable, and diverse energy resources for the future.

• Maintaining the National Oil Stockpile: The Department maintains the Strategic Petroleum Reserve, which now contains nearly 592 million barrels of oil. This reserve could be used within a one year period to substantially blunt the impact on our economy of a future oil shortage.

DOING OUR WORK BETTER

The Department of Energy has a proud legacy of accomplishments in each of these mission areas. Our programs have expanded human understanding of the world, created new fields of science and technology, generated innovations that created new commercial markets, and, in the case of national security, determined the course of world history both at the end of World War II and up through the conclusion of the Cold War. The Department is committed to further excellence in pursuit of its missions. yet we have long known that we can perform our missions better and at lower costs through fundamental changes in the way we do business. These changes already are well underway.

Through a deliberate and phased strategy, we are achieving a major organizational transformation at the Department of Energy. Specifically——

• We created the Department's first-ever Strategic Plan. With the involvement of hundreds of employees from all levels of the Department, we created a framework and shared vision for our missions in National Security, Energy Resources, Weapons Site Cleanup, and Science and Technology—which is at the center of all of our mission work. Performance in each of these mission areas provides derivative benefits to U.S. economic productivity.

• We initiated a major overhaul of the Department's contracting practices. This contract reform initiative already has secured more than $3 billion in expected savings through re-negotiated, performance -based contracts for management of the Idaho National Engineering Laboratory and the Rocky Flats facility. Additional billions of dollars in savings will come from increased competition and performance-based contract management across our complex.

• We commissioned the first independent Post-cold War review of the Departments 10 National Laboratories. Under the leadership of Robert Galvin, Chairman of the Executive Board of Motorola, Inc., the Task Force on Alternative Futures for the Department of Energy Laboratories produced a landmark assessment of the laboratories. The Department now is aggressively implementing the report's recommendations in order to reduce the cost of doing business at the Department's labs and helping sustain their long record of scientific discovery and technological innovation.

• We launched an ambitious review of our $2 billion applied energy R&D program. Under the chairmanship of Daniel Yergin, President of Cambridge Energy Research Associates and author of the Pulitzer-prize winning history of the world oil industry, this Task Force is conducting a comprehensive appraisal of the technology investments in our energy R&D portfolio and how we conduct those programs. A final report will be delivered on June 13.

• We also launched a major review of the Department's complex system of regulating nuclear safety at our facilities. This review is marshalling some of the most seasoned experts in the Nation to assist us in enhancing the health and safety of our facilities, while contributing to the productivity, efficiency, and cost performance of the programmatic work. A final report will be completed in December 1995.

Finally, in the fall of 1994 we announced our Strategic Alignment Initiative—Phase II of our strategic planning process. This 120-day, employee-driven effort was given the job of identifying better, more cost-effective means of performing the core missions defined in our strategic plan.

STRATEGIC ALIGNMENT AND DOWNSIZING

The results of our Strategic Alignment and Downsizing Initiative were announced on May 3. This plan, copies of which have been provided to the Committee, represents a major package of organizational, legislative, and cost-cutting actions that will drive down costs while enhancing our mission performance. Highlights include:

• Workforce Reductions: Employment of the Department of Energy will be cut by 3,788 (27 percent) over the next five years. This includes a 34 percent cut in Headquarters staff and a 21 percent cut in field office personnel. More than 65 percent of our workforce reduction will occur during the first two years; total savings from these employee cuts will approach $1 billion. With the Depart-

ment's commitment to reduce the size of its budget by $14.1 billion over five years, these workforce reductions will ensure that employee levels are rightsized to our budget.

• Office closures: We will close 12 field offices and consolidate headquarters personnel from 16 offices in the Washington, D.C. metropolitan area to four by the year 2000.

• Reduced Overhead Costs: Overhead costs will be cut-through many initiatives, including:

1) Travel costs will be cut by $175 million over five years, from a current base of $400 million annually (75 percent of which is contractor travel);

2) More than $75 million in revenues and reduced overhead will be secured over five years through sale of excess inventories of precious metals, non-precious metals, and rare gases that were needed during the Cold War for the weapons production complex, but which can be sold today;

3) We will save $460 million over five years through reductions in the use of support service contractors; and

4) We will save $200 million over five years by restructuring our information management systems.

• Office Alignment and Restructuring Various offices within the Department will be restructured to eliminate redundancies and to achieve a new level of integration of work across the Department. In addition, major process re-engineering will be done throughout the Department—which will enable us to remove layers of employees and needless bureaucratic steps.

• Privatization of Functions: Legislation has been submitted to Congress to privatize the Western Area, Southwestern and Southeastern Power Marketing Administrations, and the Naval Petroleum and Oil Shale Reserves. Enactment of these bills will result in $5.3 billion in deficit reduction.

The elements of this package represent real downsizing, privatizing, and corporatizing—which seem to be the buzzwords of choice in governance these days. More importantly, these actions will deliver billions of dollars in savings to the American public.

DELIVERING ON OUR COMMITMENT OF $14.1 BILLION IN DEFICIT REDUCTION

The Department's Strategic Alignment and Downsizing package—including the legislative proposals now before Congress—will contribute $7.1 billion in savings toward our commitment, announced in December 1994, to reduce the Department's budget by $14.1 billion over five years. The balance of our commitment is being met in the following fashion:

• Restructuring the Environmental Management Program ($4.4 billion savings): We are instituting major improvements in the way we manage and control costs and in how we set priorities within our environmental management program. A clear demonstration of our cost-cutting approach to business was demonstrated in the renegotiated contract for cleanup activities at the Hanford site in Washington state; the new contract, announced May 4, 1995, will save more than $1 billion. We also are reducing our contractor workforce to eliminate unnecessary layers of workers, while leaving in place the workers with the right skills and expertise for the environmental work. We will have reduced the contractor workforce at environmental management sites by 17,000 by the end of Fiscal Year 1996. These initiatives, among others, will deliver on our $4.4 billion cost-cutting commitment.

• Reprioritizing applied energy R&D ($1.2 billion savings): The Task Force on Strategic Energy R&D, which is reviewing the Department's entire applied energy R&D program, and the President's Council of Advisors for Science and Technology, which is reviewing the Department's fusion energy program, will complete their work this summer in time to inform the Department's FY1997 budget. Recommendations from these studies will assist in allocating $1.2 billion in reductions over the next five years.

• Reducing the cost of work at the Department's Laboratories: Up to $1.4 billion in savings will be delivered by implementing recommendations of the Galvin Task Force report on Alternative Futures for the DOE National Laboratories. Specifically, we are simplifying our oversight of the laboratories and will greatly reduce micromanagement—one of the principal concerns of the Galvin Task Force. These actions will enable the laboratories to remove costly and redundant administrative systems and personnel that drive up costs.

THE UNDERLYING PHILOSOPHY

The initiatives that we have been pursuing for the past two years—beginning with development of our strategic plan and continuing through the Strategic Alignment effort—have been based on more than the simple imperative of deficit reduction. Our primary goals are the same as have been articulated for the President's National Performance Review. We want to create a government that works better and costs less. Specifically, at the Department of Energy we have determined that——

- Fundamental processes which govern how the Department operates are cumbersome, inefficient, and drain our employees of energies that could be spent more productively in other ways. In response, we are re-engineering these processes and eliminating unnecessary steps so that we can sharpen our focus on mission results.
- Like most bureaucracies, the Department has responded to problems in the past by adding new layers of management and new processes on top of old ones. In response, we are de-layering the organization, establishing flatter organizational structures and empowering our employees to meet customer needs.
- Redundancies within the Department and inefficient procedures have persisted from one Administration to the next, without a fundamental rethinking of how to do things better. In response, we have seized the initiative to make major changes in the way we operate, and now—with completion of the Strategic Alignment and Downsizing Initiative—we are accelerating change.

THE DEPARTMENT'S PLAN MAKES SENSE

What the American public wants is a government that makes sense. That is what we are delivering through the plan that we have built over the past two years and are implementing on a daily basis. Through analysis, strategic planning, and management attention at all levels of the Department, we are heading down a path that will——

- Use fewer resources by eliminating redundancies, reducing the workforce, and streamlining processes.
- Reduce overhead expenses so that we deliver more mission activity for less money.
- Discard old work and privatize, eliminate, or transfer functions that can be performed better elsewhere.
- Eliminate unnecessary and redundant regulations and red tape that impose excessive cost burdens on the Department's performance of its missions.

We have welcomed and encouraged the scrutiny that is leading to a new Department of Energy, and our efforts appear to be paying off. According to an independent survey of major stakeholders—including elected officials located near DOE clean-up sites, policymakers nationwide, and citizens who follow the Department's activities—we have earned a new level of trust that did not exist two years ago. Specifically, a 1994 stakeholder survey showed improvements over a 1992 baseline survey in the following areas:

- 70 percent of the respondents believe that the Department's policies are basically on the right track, up from 60 percent;
- 51 percent of the respondents believe that the Department can be counted on to "do the right thing," up from 33 percent; and
- 43 percent of the respondents believe that the Department is committed to impartial decision making, up from 31 percent.

Information such as this is important to consider in the context of discussions about the possible dismantlement of the Department of Energy. The policy process fundamentally is a competition of ideas, and what is at issue within this hearing and within the national debate about reforming government in general, is who has the better idea for how to deliver the enduring functions of the federal government. Or, more specifically to this hearing, who has the better idea for how to perform the national security, weapons site clean-up, energy, and science and technology missions of the Department of Energy.

This should not be a partisan debate, for what we are talking about are missions that affect the safety, security, and quality of life of real people—today and into the future. It is in this light that I believe that the Department has put the best plan on the table. In contrast, proposals to dismantle or consolidate our functions would cause serious risks, without delivering significant benefits.

RISKS OF DISMANTLEMENT OR AGENCY CONSOLIDATION

In addition to our plan to align and downsize the Department of Energy, there exist two apparent options: 1) "dismantle" the Department and distribute its missions to other federal agencies, and 2) combine the Department of Energy's missions with those of half a dozen other agencies to create a new Department of Science. Both of these options raise serious concerns.

Dismantling the Department may initially sound appealing to those seeking a bold step for deficit reduction, yet dismantlement alone will not produce significant savings. The Reagan Administration learned that lesson in 1981, when it actively pursued dismantlement of the Department of Energy. Early statements by Reagan Administration officials projected savings in excess of one billion dollars annually through dismantlement of the Department. Within six months, however, these estimates had collapsed to only a few million dollars in savings per year as it became clear that there was little to be saved through simply shuffling missions to other agencies, since those missions would still require administrative and management support wherever they were located.

That lesson should inform today's debate. Although the House Budget Resolution released last week states that "orderly termination of the Department of Energy" should begin in FY 1996, it has provided no plan or explanation for what this means or how it would save money. More than two-thirds of the Department's budget supports weapons site clean up and waste management (39 percent) and nuclear weapons, non-proliferation, and national security functions (28 percent). These activities are not about to be "terminated."

Another major portion (16 percent) of the Department's budget involves basic R&D that is a vital investment in our future. Research programs supported by the Department of Energy have helped make our National R&D enterprise the envy of the world. I have seen no evidence that the American public supports termination of this work. Indeed, I would note that the current Congressional leadership agrees that basic research should be sustained since it inherently is a governmental function.

Finally, approximately 15 percent of the Department's budget supports R&D across a diverse range of energy technologies that hold the long-term potential of delivering tens of billions of dollars in reduced annual consumer energy bills while providing additional insurance against future energy shocks. In my view, and that of many others, it would be short-sighted and potentially dangerous for the long-term security interests of our Nation if we terminated federal energy research. The Department is committed to reducing its applied energy R&D programs by $1.2 billion over the next five years, but cuts beyond that level could cause abandonment of high-risk R&D efforts that hold enormous potential for delivering improved energy options to future generations.

Those who call this work "corporate welfare," because it involves cost-shared partnerships between the government and industry, are denigrating the type of collaborations that our international competitors know are essential in today's global marketplace. Through risk-sharing between the Department and the private sector, we are accelerating the development of technologies for which there is a substantial public purpose—enhanced energy security—and for which private investments cannot be assumed. Although we will continue to debate the appropriate funding levels for applied energy R&D, in the final analysis I do not believe the Nation will accept termination of the federal role in energy R&D because energy is too important to our long-term economic and security interests.

Through this analysis, it would appear that more than 85 percent of the Department's mission activities would continue even under the rubric of termination of the Department. Transferring the enduring functions of the Department, however, raises serious policy and management concerns.

Some have suggested transferring the Department's nuclear weapons functions to the Department of Defense. However, the Department of Defense opposes such a move. As explained by Secretary of Defense William Perry, in March 29, 1995, letters to the Chairmen of the House and Senate Armed Services Committees:

> "Over the past 50 years, there has been a clear and distinct separation of the nuclear weapons-related roles and responsibilities of the Department of Defense and the Department of Energy (and its predecessor agencies). This dual-agency approach has served the Nation well by creating institutional checks and balances that are vital for meeting the performance, safety, and reliability requirements of the nuclear arsenal. With the new technical challenges of providing stewardship of the stockpile in the absence of underground testing, this is not a time to be fundamentally restructuring the management of these activities."

This also is not a time to be transferring the Department's Environmental Management programs to another agency. Over the past two years, we have made enormous progress in putting the program that we inherited on an affordable path. For the first time in this program's history, we are demonstrating major tangible results (e.g., we completed 132 interim, and 32 larger-scale clean-ups in 1994—300 percent more than targeted); we have developed new technologies that will lower clean-up costs (e.g., 50 new technologies were demonstrated last year); and we have achieved enormous productivity gains across the entire program. Renegotiated contracts and elimination of more than 17,000 excess contractor employees between 1992 and 1996 will save more than $2 billion. These accomplishments have been the result of concentrated management attention which almost certainly would be sacrificed if the program were disrupted through a transfer to another agency.

The scenario of creating a Department of Science to receive parts if not all of the Department of Energy—as well as NASA, the National Science Foundation, the Environmental Protection Agency, and parts of the Departments of Commerce and Interior—also does not seem workable or advisable. The result would be a monolithic new bureaucracy with a budget perhaps exceeding $46 billion, more than 77,000 federal employees, and more than 300,000 contractor employees. Science advisors for Presidents Richard Nixon, Gerald Ford, George Bush, and Bill Clinton all have expressed their opposition to creation of a Department of Science. These and other prominent scientists see establishment of a Department of Science as a risky action that could threaten the Nation's leadership position in science. In their view, such a Department would involve more bureaucracy, not less, and would sacrifice the diversity of funding sources and research avenues that have produced scientific triumphs for the Nation over the past 50 years.

CONCLUSION

Mr. Chairman, the American public wants a government that works better and costs less. At the Department of Energy, with the help of private sector experts, we have made tough decisions about how to perform our work better with substantially fewer resources. Our alignment and downsizing actions represent a bold effort to reduce layers of management, eliminate organizational redundancies, integrate activities that historically have operated in isolation, and deliver $7.1 billion in deficit reduction in the process. We will cut an additional $7 billion through reductions in our Environmental Management and applied energy R&D programs, and through cost-cutting actions at our laboratories. Through this process, we will meet our most important objective, which is to better serve our customers as we deliver on our missions: protecting national security, enhancing our long-term energy security, protecting the environment, advancing the frontiers of scientific understanding, and developing technologies that contribute to U.S. economic productivity.

These are the missions which drive the Department of Energy's existence. These are not missions from which the Nation can or should walk away. To those who support dismantlement of the Department, our response is that we have a better way. That better way is to perform these vital missions at drastically reduced cost and with an increased level of service to the American public.

Dismantlement of the Department would not result in anything but shuffling boxes among agencies. If that were all that would happen, then perhaps there would be little cause for alarm—other than to criticize such action as being driven by politics. However, dismantlement of the Department could result in severe mission disruptions and possible threats to important programmatic activities. The Department's plan for aligning and downsizing our functions will avoid these risks, while delivering $14.1 billion in deficit reduction over the next five years. We look forward to working with you and the rest of Congress to realize these budget savings, particularly our legislative proposals to privatize the Naval Petroleum and Oil Shale Reserves and the Western Area, Southeastern, and Southwestern Power Marketing Administrations. Companion legislation, which would make the Bonneville Power Marketing Administration an independent government-owned corporation, also will be before the Congress within the next few weeks—where we hope it will receive prompt attention.

Again, Mr. Chairman, I appreciate your efforts at examining options for delivering a government that works better and costs less—two defining commitments of the Clinton Administration. We look forward to working with you and your colleagues to meet these important national goals.

Mr. HORN. We thank you very much, Madam Secretary.

As I mentioned to you before the hearing, one of my major concerns is if change comes in the Department of Energy and if there

is functions that are removed from it, I have a concern about the nuclear weapons function in particular.

My reading of history was that Congress wanted, was very precise about what was originally atomic energy under the jurisdiction of a civilian authority, not in the Department of Defense. Some of the proposals that we talk about call for it moving to the Department of Defense.

What I would like, since you were in on the ground floor, your perspective both in history and the establishment of the Department of why nuclear materials production, analysis, and so forth was given to a Department of Energy and not put in a Department of Defense.

Ms. O'LEARY. Thank you, Mr. Chairman.

Indeed, not only was I there at inception, but my late husband also worked in the old Atomic Energy Commission, so through him do I have a more insightful look back at history. I would take you to 1947 and the McMahon Act when President Truman, then President of the United States, early on articulated to the then-sitting Congress the necessity to keep the mission of deploying nuclear weapons separate from that of both designing them and perhaps most importantly certifying for their safety and reliability.

That, if you will, separation between the civilian function of building and determining safety and reliability separate from the military has now been adhered to for almost 50 years. I would contrast the pattern in the United States and take you further and tell you that at every turn, through each decade since 1947 when august groups of imminent public policymakers and scientists have considered this issue, the decision has always been to keep this very separate wall between the two agencies and the two functions.

More importantly, I would turn you to Russia where the system has been quite different and the military entirely controls, and I will tell you personally in my work with the Vice President and the Gore/Chernomyrdin Commission, and pushing issues of nonproliferation and openness so that we can certify the security and the safeguarding of our nuclear stockpiles.

It has been much more difficult to work with a regime that is fully controlled by the military, and I would suspect that we don't want that to happen in the United States. Most importantly, my colleague, Secretary Perry of the Department of Defense has, too, indicated that he believes that history stands to record that this division and clear separation has worked well and he by letter to both chairs of the Senate Arms Committee and the House Armed Services Committee has indicated that he does not desire this function nor does he believe that it is appropriate.

Mr. HORN. Let me move to another question.

Many of the changes in your Department have been initiated by the National Performance Review recommendations. Could you explain how the NPR group works with your Department to follow up on their recommendations and implementation?

I am interested particularly in the follow-up on Phase Two of the NPR and what type of staff line contact is there to get something accomplished within the administration?

Ms. O'LEARY. Fair enough. Well, I will tell you that for the Department of Energy our relationship with the National Perform-

ance Review has been very collaborative and supportive, but the issues and the programs that I have had ongoing to renew the Department of Energy were started before the National Performance Review and so what we have had to do is to meld our activities so that they complement, and I can remember when the Vice President first appeared.

I had in the first meeting with the Vice President and the National Performance Review staff a quality team as well as my National Performance Review team, and that team in fact has now been melded. We have a set of commitments that the Department makes to me personally establishing goals that we negotiate each year.

Those goals are then reduced to a commitment that I make to the President of the United States, which is signed both by me and the President and my assistant secretaries, which permits then the performance of these goals to be measured and tracked not only by the Secretary of Energy but delivered to the performance review team. We have worked with them in our task groups with our pilot fields, and we moved this program not merely into Washington but out to the field so that we have test bed cases working to review and improve our activities, and I mean the management of the work so as to cut costs at every site.

Mr. HORN. Are there any cases of NPR recommendations made to your Department that you have disagreed with and not implemented or do you feel bound to implement NPR recommendations?

Ms. O'LEARY. Well, as I have indicated, what I have done is to reduce these agreements to a contract, and I am a lawyer, understand that I keep my contracts.

Mr. HORN. You are telling me there has been a little negotiation, compromise, and accommodation?

Ms. O'LEARY. Not necessarily. In point of fact, I will actually show you what we have done in the Department by showing you one of these—someone give me the page number on my downsizing. If you will look to page 14 in your folder.

Mr. HORN. Now, this is on which batch? Are we talking about success stories?

Mrs. MALONEY. Dollars and Sense?

Ms. O'LEARY. No, I apologize, here it is, it is right sized work force. It would be page 7. What we have committed to in terms of reducing the work force is a reduction by some 27 percent. My commitment under National Performance Review just a year ago was 8 percent, so I am doing better than National Performance Review, and I hope to continue to do that because I believe that that is the way you run a quality organization.

So I would tell you that my people have been much more aggressive. This goal of reduction by 27 percent was first delivered to me by a task group of employees who worked on this alignment. They told me that I could do about 50 percent of that.

I took a hard look at the way we perform our work, and I decided we could do better. So I would like to leave this hearing having you understand that I am a lot more aggressive than I started out to be a year ago.

Mr. HORN. I never doubted that.

I now yield to the ranking minority member, Mrs. Maloney of New York.

Mrs. MALONEY. Thank you.

Thank you very much, Mr. Chairman, and thank you Madame Secretary. The budget resolution awaiting floor action this week in the House assumes the abolishment of your Department, but it is not clear whether any significant savings would be realized by taking this step. What savings do you estimate would be achieved by abolishing the Department of Energy?

First of all, I would like to congratulate you on the $14 billion in savings that you have already achieved in the 5 year plan.

Ms. O'LEARY. I am left to ponder with you exactly what the plan is. So I have to make some assumptions of my own. The first assumption I make, to quote Congressman Spratt, is that the Secretary would be decapitated from the body called the Department of Energy.

Mrs. MALONEY. What is your total budget now?

Ms. O'LEARY. My total budget approaches—$17.8 billion is the request. I must remind you that when I came to the Department of Energy, it was about $21 billion. So that indicates what we have done.

But if one presumes that that is the impact of the abolished scenario, then you would simply take away the Office of the Secretary, continuing one Secretary of Energy, a Deputy Secretary and an Under Secretary and support staff and what has to be done to support us. That budget for fiscal year 1996 is approximately $3.6 or $3.5 billion, so that is not very much of a savings.

The other piece that would inform us would be to go back and to look at the attempt to abolish the Department of Energy during the Reagan administration when early on the touting was that it would save billions of dollars. Finally, the Congressional Budget Office said it couldn't score it and if it did have to score it, it would probably not amount to any more than $65 million.

So without informing that piece, we are left to a quandary where would the pieces go. I can give you some more insight.

One proposal——

Mrs. MALONEY. You are presuming that $3.6 million would be saved if they abolished it because the other functions would be dismantled in other places?

Ms. O'LEARY. They would be dispersed to other agencies.

I would like to follow one other train of thought because I think it enlightens the process. Some have proposed that we establish a National Security Agency, now displacing the one Assistant Secretary for Defense Programs and the one Assistant Secretary for Environmental Management. The proposal there is to create an agency with eight Presidential appointees, so I don't see how you save money there by simply adding more Presidential appointees to support the functions that are now performed by just two.

Mrs. MALONEY. There have been a number of alternatives that have been mentioned, and I would like to question you about them.

Ms. O'LEARY. Certainly.

Mrs. MALONEY. What would be the consequences of transferring the DOE functions to EPA?

Ms. O'LEARY. Well, I early admitted or confessed to being a lawyer. I could not see placing the program for which the Environmental Protection Agency has the enforcement and oversight responsibility within that agency. One always wants to keep the enforcer both separate to ensure that that oversight responsibility is without conflict, so that strikes me as quite illogical.

Mrs. MALONEY. Well, you mentioned earlier that Secretary Perry was objecting to some responsibilities going to the Department of Defense. If they don't go to the Department of Defense, where would they go?

Ms. O'LEARY. I cannot imagine. I have just outlined the one proposal, that is, to create yet another agency, so that doesn't quite streamline the Government.

Mrs. MALONEY. The Department of Science.

Ms. O'LEARY. Ah, this is my last and to the far left you will note pictorial on the options on the table. It has been suggested that perhaps a mega Department of Science might be created. This strikes me as going in the opposite direction of streamlining, downsizing and running a mean, lean government.

It would provide for the Department of Energy, NASA, for the Environmental Protection Agency, the National Science Foundation, NIST, NOAA, and other alphabet soups that I cannot continue to read because I don't have on my glasses, this agency taken as a whole would now have a budget of $46 billion. It would have 77,000 Federal employees, and 300,000 Federal contractors.

Mrs. MALONEY. So it would have a larger budget than your existing one?

Ms. O'LEARY. Well, and more frightening than that, in my mind, if one looks at this in support of the basic and applied sciences, you have a monolithic agency, unclear about its mission, now attempting to support basic science, to understand how the basic science proposal might support the missions that are considered to be governmental functions, it does not make sense to any one of the science advisers to all Presidents from Nixon through Bush, save one from the Reagan administration, all scientists say that this is a bad idea.

Mrs. MALONEY. Some of my freshman colleagues have suggested an independent agency in the Department of Defense.

Ms. O'LEARY. Several things occur to me. One, that no Secretary of Defense that I know of has ever seen that the responsibility should be melded, and perhaps more importantly, this tension between the scientists who have to take the order to ensure that the weapons are safe and reliable ought to remain, and I see that as further exacerbating the focus of the Department of Defense which is to ensure that we have military readiness. And I think that is one of the reasons for the split off of these functions between the two agencies from inception.

Mrs. MALONEY. Could savings more——

Mr. HORN. I am sorry, the gentlelady's time has expired. We will have another round. Save the question. I have got a long list, too.

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

Mr. DAVIS. Thank you, Mr. Chairman.

I would almost like to pick up where Mrs. Maloney left off because I have tried to look at the budget alternatives that have

come forward calling for abolition of the Department, and I am not sure where the savings are, either. In fact, unless you get into some of these functions and abolishing some of these functions from what you are saying and from what I see there isn't any savings. Am I missing anything?

Ms. O'LEARY. Are you saying there are no savings in the abolish option?

Mr. DAVIS. Yes. I mean, there is savings over and above what you are doing on your side, unless you take particular functions of that and do away with the functions, and that is yet to be articulated.

Ms. O'LEARY. Well, yet to be articulated and not examined with any thought and care. What I have—actually there is an interesting op-ed piece by Mary McGrory today in the Post who surmises that perhaps this is about trophies, it may have been my language indeed, but it might also be about philosophy. I am not really clear what purpose is to be served with a proposal to abolish as it stands, and my colleagues have often said to me, and I agree, that the alignment proposal, which takes program cuts very thoughtfully, with lots of private sector help as well as managing the place better and spinning off private enterprise that ought to go to the private sector, certainly is the better way.

Mr. DAVIS. I sit on the Science Committee and I sat through the Galvin report and I saw all the wrenching of the people. How can we go this deep? That was difficult for Members, so I am just wondering when the reality sinks in, where the cuts will come on the abolition.

On what you are doing with the programmatic realignments and the cuts that come from that, I have got a couple of questions. How are we going to get down, cut 3,788 employees with the existing personnel rules?

Do you need early buyouts?

Is there some mechanism there to give some of these employees who have worked and done a good job, in many cases, it is just that they are victims of realignment, give them a softer landing or transfer them or what are you looking at in those cases and what tools might you need to make that come about?

Ms. O'LEARY. Mr. Davis, thank you for asking this question because I have given it a great deal of thought. I have downsized in the private sector and I know how wrenching it is to real people.

Mr. DAVIS. Madam Secretary, let me just say I headed a county of 900,000 people and we had to do the same, and that is real hands on, that is not theoretical.

Ms. O'LEARY. Exactly, these are real people with lives. We are lucky in many respects, the first to be that we have buyout authority amounting to the ability to buy individuals out who have looked at their lives and decided that they would like to go on for some 2,200 individuals. That is an important, if you will, foundation to get this work done.

The next thing I would tell you is that we have involved ourselves in a true partnership with a National Treasury Employees Union, Bob Tobias and I have both signed a commitment that if we should have to downsize from that number—and I will elucidate more as to how that number might be brought down—we will use

buyouts first. We will then move to impressing upon the individuals who work with us to continue those who have the option now to retire to retire or move on.

The attrition rate at the Department of Energy has been approximately 4.5 percent. For planning basis we assume that over the next 2 years at a minimum it will be only 4 percent. That gets us close to another 1,000 human souls who might leave the Department of their own volition. You can see that we still have shortfall.

It is at this point that one either now has to look at RIF, if you will, or one has to see if we can get additional buyout authority. My preference is for buyout authority. I have instructed my Assistant Secretary for Human Resources and my general counsel to begin to engage within the administration to see how we can obtain additional buyout authority. I must caution you that each buyout authority requires for it the $25,000 which must be the compensation to the individual who makes that life decision.

I now need to point out another difficult problem. We intend to bring about 54 percent of that 3,788 number off the rolls in the first 2 years. As you might well imagine, if one looks at annuity decisions, most of the individuals who have taken advantage of buyout have selected the later window because that allows them to pay into their pensions at the last available moment.

So I have a problem with respect to timing as two-thirds of the people who are going to exercise buyout plan to do it in the year September 1996 to September 1997. So I need to find a way to accelerate people to their earlier window.

I will be working with the union and I know with this Congress and this administration to make that occur, but it is my strong desire to bring people out who want to come out.

In addition, I might add, we have set aside $50 million to provide to our own Federal colleagues the same assistance that we have provided to our contractor employees when they are leaving our rolls. That is retraining and out placement, and I believe it is very important to do this.

Mr. DAVIS. What effect is all this going to have—retaining key personnel and recruiting in the future over the long term—on the morale of the work force?

Ms. O'LEARY. It is very difficult. I will tell you of my field managers, one of my key lieutenants just retired last week. I have no idea how I will replace him. He is in fact in my idea irreplaceable.

It is very important that we come to some quick decisions about the fate of this Department and most importantly its missions because our best people will leave us, and most importantly it will be difficult to attract people from the outside who may be available to us with fine private sector experience because they doubt the sustainability of not only the mission but the sustainability of the vision for the leadership of this Department. This makes it very difficult to both recruit and hold our core people.

Mr. DAVIS. Thank you.

Mr. HORN. I thank the gentleman.

I would yield to the gentleman from Pennsylvania, Mr. Mascara.

Mr. MASCARA. Thank you, Mr. Chairman.

As indicated in my testimony, the Pittsburgh Energy Technology Center is widely recognized as being a premier research center, de-

veloping clean coal technology which took on new meaning and emphasis with the Clean Air Act amendments of 1990. I think you heard me say, Madam Secretary, that we have 8 billion tons of coal in two counties in my congressional district, and my question is this: Isn't this research important to us, given the fact that after the 1970's when we experienced an energy crisis, and we all seemed hell bent on developing a national energy policy, and do we have a national energy policy because after Jimmy Carter, Nixon seemed to go by the wayside, that is developing an energy policy in this country?

Didn't we learn anything from the invasion of Kuwait and aren't we concerned about the volatility in the Middle East and Iran and all those kind of things?

Can those things come back and haunt us? And in our zest to achieve efficiency, which all of us, I am sure all of us think is important, that we should, and you spoke, or Mr. Spratt did, about national security, are we considering those factors in our deliberations here?

Ms. O'LEARY. I would tell you that I am well aware of the fact that there is an energy policy existing within the Department of Energy. I would also quote to you none other than Senator Robert Dole who some 1 month ago indicated that he believed energy issues would shape our foreign policy for the next 15 years.

Now I want to move very quickly to clean coal technology, for I am understanding that for the next 20 years the projection for coal use, not only in the United States, but internationally, is for there to be an increase. So it is even more important that the funds that the Federal Government has spent over the last 15 years, approximately $2.75 billion on clean coal technology, is now paying off and more efficient technology for generation, which has something to do with cost, makes it much more cost-effective to produce that power, but more importantly I can tell you that I can quantify in excess of $9 billion worth of sales coming from the clean coal technologies which have been deployed now.

That points out to you that it normally takes from 5 to 7 years to bring a new technology to marketplace. We have got market sales booked for $7 billion on probably round one or round two technology. Imagine the potential over the next 5 years as these clean coal technologies are ready for market penetration.

I had the honor of leading a Presidential delegation to China just 4 months ago, maybe 3 months ago, where the Texaco Co. indicated that they believed the IGCC technology coming out of our clean coal technology is deployable in Asia and that the amount of sales there might be in excess of $10 billion. This is just one technology. In my belief, that is a part of the energy policy. We have got to continue to deploy this technology that is both clean and economic.

Mr. MASCARA. I must admit that I am parochial in some of my views because even though that is not in my district, it is contiguous with my district, and certainly with the amount of coal available in my district that we should not be talking about closing down the research facility, the Pittsburgh Energy Technology or even Morgantown. I understand they are talking about consolidations there. But that should play a vital role in our overall strategy

of developing energy policy because it is one of our main sources that is going to take us into the next century.

Ms. O'LEARY. I agree with you, and I would just point out to you in this morning's Wall Street Journal, General Electric is indicating that they have developed a turbine that can provide 60 percent efficiency. That is well improved against the 35 percent now enjoyed by most generators.

The interesting piece of this article is that there is a race afoot. We have got Westinghouse. We have got ABB and others offering generation at 56, 58 percent efficiency.

This technology comes directly from the Clean Coal Technology Program housed in Morgantown and in Pittsburgh. In my mind, what we need to do is manage those facilities much more efficiently, and so we have already examined how we can administer those two areas together.

They are only 70 miles apart. I believe there are other efficiencies to be enjoyed, but I am not suggesting that this program be thrown away. We need these efficiency improvements, and we need it to keep America competitive.

Mr. MASCARA. Thank you very much, Madam Secretary, and I agree with you. I think we need to look at more efficient ways, but certainly not to lose sight of the fact that we need to develop an energy policy in this country and stick with it. Thank you.

Thank you, Mr. Chairman.

Mr. HORN. Thank you very much.

I yield 5 minutes to the gentleman from Pennsylvania, Mr. Fox.

Mr. FOX. Thank you, Mr. Chairman.

I would ask the first question. The GAO in its 1993 report, Management Reform: GAO's Comments on the National Performance Review's Recommendations, state that the Department of Energy, that many of its past problems can be directly associated with breakdowns related to contractors. However, of the remaining challenges that confront the Department of Energy, many are policy-driven and go well beyond the economy and efficiency-oriented solutions that generally characterize NPR's agenda.

In regard to the GAO's comments, do you feel they were accurate at the time?

Ms. O'LEARY. You know, it is——

Mr. FOX. That was issued in December 1993.

Ms. O'LEARY. I am trying to focus on that report exactly. It is difficult for me to recall all sum and substance of that report, though.

One difficulty I have with all of these GAO reports is they look back in time. They generally look back in time years.

But let me tell you what I do agree with. One, the finding on the contractor mismanagement. I have improved that. That was the first major exercise in the Department of Energy. With respect to policy, you know, policy-driving initiatives, I suspect that that might have addressed the question of our environmental management program, and I agree on several levels.

First of all, you don't run a program of approximately $7 billion without having clear goals for cleanup. I will tell you that we have cleaned up over 500 sites specifically.

I mean that is again an accomplishment, setting targets and going out and getting it done. We failed to talk about it, so I am going to do that more.

But most importantly, the policies I believe GAO might have been addressing were those involving what is the use of the land once cleanup has been accomplished, and the battle that is now going on and I believe appropriately within the Congress that asks before you decide how clean, you better decide the land use.

If you are going to build public housing, then you want it as clean as can be. If you are going to cement it off or chain link fence it off, there is another standard, and those standards ought to apply to land use. That debate is now going on within the Congress.

Our administration, especially through Tom Grumbly, who is head of the Environmental Management Program, is working with all sides of the Congress on this proposal of how you manage risk and cleanup. What we want to be certain of is that the standards established have a scientific base, they are rational in terms of real people's use of the land, and that once you set the standard, we stick with it.

Mr. FOX. The second question, the final question deals with privatization. There is an estimate that $3.7 billion would be realized from privatizing the three power marketing administrations, the western, the southwestern and the southeastern. What timeframe do you assume to complete such a privatization process?

Ms. O'LEARY. We have always assumed that the privatization process could be begun in fiscal year 1997, the clear driver being that it will take this year to get legislative authority. Some of us have thought that we might move very quickly after that.

I last lived in Minnesota. I understand that again the impact of the lives of real people proposed through this sale is very dramatic, and we need very carefully to work out the legislative tools to see that equity is done to the ratepayers who receive the benefit of the power marketing administration today, and we also need to ensure that the American public receives the appropriate benefit on the sale.

I think that that has to be done very artfully. It cannot be done overnight.

Mr. FOX. What is the agency doing to advance the privatization process?

Ms. O'LEARY. I am sorry, I didn't hear you well.

Mr. FOX. What is the agency doing to advance the privatization process at this time?

Ms. O'LEARY. We are doing several things. One, we sent to the Congress in the first week of May legislation to accomplish that goal. More importantly, we are entertaining discussions and debates with all of the stakeholders who have a very strong point of view on this issue, and we are also receiving visits and meeting with individuals who are interested in buying these power marketing administrations, and we are working very closely with our colleagues at the Office of Management and Budget to accomplish these goals, but we sent the legislation up. My recollection is it actually arrived on May 4th.

Mr. FOX. Very good.

Thank you very much, Mr. Chairman.

Mr. HORN. Thank you very much.

I yield to the distinguished gentleman from South Carolina, Mr. Spratt.

Mr. SPRATT. Thank you very much, Mr. Chairman, and thank you, Madam Secretary, for very impressive testimony.

I want to go back to the fundamental question which seems to me to be what do we save by dismemberment, dismantlement just means taking the mantle off, dismemberment is what we are talking about and what will be the disruption and rearrangement costs, not just in terms of hiring panel trucks to move your file cabinets from the Forrestal building to the Pentagon, but in terms of losing your focus and losing time in implementing what is a significant series of management efficiencies. You conducted these surveys internally yourself, you understand them, obviously picking that implicit knowledge up and transferring it to a new agency is not easy to do.

Ms. O'LEARY. It is not, Mr. Spratt.

What I have learned in the private sector is that you want leadership and focus and strategic thrust to be in place, and normally you need it to be in place for 7 years before it can impact completely out into the universe. I have described how widely flung our universe is.

I would tell you that we have 22,000 facilities that many of which need cleanup, but most importantly what happens when a new management takes over is first of all you spend 9 months scrambling around trying to get some sense of what you have, and invariably what will happen next is someone will decide on a new management structure, thereby throwing out all of the agreements we have reached with respect to our goals and most importantly as you pointed out losing time in the two areas where time is most costly; first of all, in cleanup.

Every moment we delay in cleanup simply means a much more expensive process later, and that is occasioned by the fact that many of these facilities which have to be cleaned up are quite frankly disintegrating, so we need the time to move quickly to get on to that, to meet those milestones.

Mr. SPRATT. Let's assume you lose 1 year, which I think is a conservative assumption. Just a year dead time in moving, rearranging the Department from one place to another and letting the new people who take over come to grips and an understanding of the problem. How much do you expect to save in a year's time?

Ms. O'LEARY. You will invariably lose money in that. We will lose money in this way: If milestones are missed for cleanup, we have contractual obligations with States, people will sue us, we will be fined by EPA, so the American taxpayer will now have to pay a fine because we failed to do what we committed to do.

I understand this because when I came into the Department I made a determination that we ought to stop doing that. The thing that bothers me most is that there will be no one at the top of that organization, if it is the Department of Science, who has the commitment and the drive to get on a plane and hit these sites to ensure that everybody is focused on delivering to the commitments

and to also ascertain what is needed in terms of resource to deliver on commitments made.

Mr. SPRATT. You make the point in your testimony that nearly two-thirds of your Department is concerned with defense-related programs, 38 percent for waste management, environmental management, and 29 percent for DP defense programs itself.

Ms. O'LEARY. That is correct.

Mr. SPRATT. Two-thirds.

So presumably as you say this is not going anywhere. We wish the environmental management problem would go somewhere, but it is with us, it is not going anywhere, it is enormously expensive, we have still got nuclear weapons that have to be maintained.

Presumably this would be transferred to the Department of Defense, so the proposition that we are going to save significant money rests on the premise, therefore, that the Department of Defense is a paragon of efficiency, that they can perform this more efficiently than you can, even though we have just read in the Washington Post over the weekend that they can't close their books, that they are $15 billion out of balance on what they paid.

I am taking a bit of a cheap shot because I am on the Armed Services Committee and I have worked in the Defense Department, but I have this inherent suspicion, feeling that these megadepartments are not more efficient than small departments with a few focal points like yours.

Do you share that?

Ms. O'LEARY. I absolutely agree with you, and that experience I have gained from the private sector. You want focus, you want a committed leadership, and you want someone who understands and can orchestrate the missions.

It makes no sense to me at all, and most importantly my colleague back here has just reminded me, is it likely the nonproliferation work will lose focus and attention, and for the long run and the short run that is a very critical area that deserves attention at the highest level.

Mr. SPRATT. The chairman asked you a question about the time-honored traditional division between nuclear materials production and the use of nuclear weapons.

Ms. O'LEARY. Yes.

Mr. SPRATT. I think there is a good example in recent history, contemporary history of how that division serves us well. You were within the Department a supporter of a test ban.

Ms. O'LEARY. That is correct.

Mr. SPRATT. While there were quite a few in the Defense Department who were very reluctant to sign on to a test ban.

Ms. O'LEARY. That perhaps understates the point.

Mr. SPRATT. We have just seen a nuclear proliferation treaty apparently laid down on a permanent basis or at least for years to come, and I doubt that we would have achieved that if we were still conducting even a limited number of tests at the present time.

Ms. O'LEARY. I agree with you, but the important point I think to be made is a sharper finer point is that I oppose the continuation of testing on the basis of the scientific information given to me by my laboratory directors, and that was that the Secretary of Energy on their advice could certify to the safety and reliability of

the stockpile for at least 10 years without nuclear testing. So it was not merely a point of view nor a political decision that I reached, and I think that more illustrates the need to keep the separation between the scientific advice and the policy call, so it was in that way that I——

Mr. SPRATT. I know my time has run out. Keeping some of these decisions in different hands, keeping this division keeps alive a healthy debate, I think. That is one of the reasons, one of the intangible benefits that doesn't have a dollar amount assigned to it that nevertheless is an important benefit.

Thank you very much for your testimony.

Ms. O'LEARY. Thank you, sir.

Mr. HORN. I am delighted the gentleman and I share a similar view on the subject.

I now yield to the gentleman from Washington, Mr. Tate.

Mr. TATE. Thank you, Mr. Chairman.

Thank you, Secretary O'Leary, for taking the time to come by. I was reading through your "Saving Dollars and Making Sense," and under principle three it talks about discarding old work and privatize and eliminate and transfer functions, and so forth.

Under "actions," it says submit legislation to implement the administration policy on public marketing administrations. Under point one, it says establish the Bonneville Power Administration as a wholly owned Government corporation. Recently, and being from the Northwest, I have been following this issue, and working with Bonneville, BPA quite a bit, and they have brought up three different changes that they want to see happen.

One was refinancing the debt, No. 2 was the Government corporation, and No. 3 is dealing with the whole issue of the fish costs which is looking at Endangered Species Act which is a big part of the reason why Bonneville is having difficulties.

You know, they are looking at raising rates. You know, they are losing business. They are spending about $350 million a year on this particular issue.

By just moving it over to becoming a Government corporation, how are you dealing with that particular issue which is causing a problem in the first place? To me that is just shifting it over without dealing with one of the root causes for the problem in the first place.

Ms. O'LEARY. Two things.

First of all, I would tell you all of the decisions involving the fish hatch are not within my domain. Interestingly enough, as you well know, they are over at the Department of Interior, but I have known and worked with Bonneville for some years. I have told you my checkered past. I have been in and out of this business for quite some time, and I have worked with Randy Hardy. We have been in the same administration together. I know him well.

What Bonneville, first of all, needs is to be freed from Government stricture so that it can begin to act like a private entity.

Mr. TATE. Right, in regards to personnel and procurement.

Ms. O'LEARY. Absolutely.

So I want to free Bonneville from those strictures that prevent it from being run like a good business, as do my colleagues at Bonneville, and this is a piece that they support.

On the refinancing of the debt, that is a piece that I supported last year, the year before, and I will continue to support. I don't believe that it ought to be part and parcel of this piece because I think this piece in terms of trying to privatize and better manage the power marketing administrations quite frankly is enough of a policy gulp in and of itself.

These other issues I will continue to work on, and the fish hatchery, the fish hatch issues, no one has worked harder than our Deputy, Bill White, in attempting to set up some rational proposal that permits that the interest of those who are involved in fisheries as a commercial activity and those who are involved in fishing as a sport are met and we still keep prices economic to the businesses and the homeowners who live and receive power from Bonneville. This is not an easy issue, and we have been grappling with it now for 2 years, 2 months and almost 15 days.

Mr. TATE. But who is counting?

Ms. O'LEARY. I am.

Mr. TATE. How would it work within the framework, though—still on that issue—if it does become a Government corporation, and the administration has said they will help with the $160 million to try to offset some of the costs, how is that going to work in the framework of a Government corporation if, one, you have a Government corporation over here but yet the administration is coming in to have to try and bail them out to handle the fish costs which is causing the problem in the first place? I know you do not particularly have jurisdiction over the Endangered Species Act, but one of your proposals in here is making Bonneville Power Administration a Government corporation. Those to me are linked hand-in-hand.

Ms. O'LEARY. I would cite you the example of the U.S. Enrichment Corporation which takes the uranium enrichment functions and did some 2 years ago, 4 years ago out of the Department of Energy and established it as a governmental entity. The Department of Energy continues to work with it as a partner, services it, does much of its oversight for health and safety, and works with the U.S. Enrichment Corporation in its effort to market a commercial fuel internationally.

So I do not believe the relationship of support and comity will end, and I could cite you other examples, but this is the one that I have been most intimately involved in because I was actually—I participated in the spin-off of this function from the Department to a quasi-governmental organization, and this is the same idea, to set this entity up so that it might be more profitable as it could be once it is removed from the strictures of budget management and also the overriding procurement and personnel rules, so I suspect, and I will commit to you today, that I will ensure that the partnership that exists between the Department and Bonneville on issues involving policy will continue.

Mr. TATE. OK. Last, and I honestly appreciate your work on this particular issue, you mentioned earlier that you had submitted the legislation on this particular issue or on the power marketing administrations.

Ms. O'LEARY. That is correct.

Mr. TATE. Where is it right now, because we haven't had a chance to look at it yet? Is it at OMB? I was talking with my staff just a minute ago and we have not had a chance to review it yet.

Ms. O'LEARY. I spoke carelessly. I should have indicated to you that we sent up on the 3rd the legislation affecting the sale of the three power marketing administrations and it has just been whispered to me that the Bonneville legislation will come up at the end of the month. I know that has occasioned——

Mr. TATE. You had me worried for a second there, because I hadn't had a chance——

Ms. O'LEARY. No, I promise not to keep you out of the loop.

Mr. TATE. OK, thank you.

Mr. HORN. I thank the gentleman.

The gentleman from New Hampshire, Mr. Bass.

Mr. BASS. Mr. Chairman, I have no questions at this time.

Mr. HORN. We will now begin, then, the second round of questions.

Let me pursue an area that is dear to my heart, Madam Secretary. Let's see if it is dear to your heart.

As we know, since the time of George Washington, we have had a cabinet of the key executives of the national Government, and members of the cabinet serve at the wishes of the President, and who is in the cabinet is also a wish of a particular President.

From time to time the Ambassador, representative of the United Nations has been a member, Director of OMB, Chief of Staff of the White House, so forth.

Now I notice with interest in your response to Mr. Tate's query you pointed out the problems of not having complete control on the fish hatchery situation in relation to Bonneville. That technically is under the Secretary of the Interior. You are the Secretary of Energy. How are we getting that resolved?

Are we going to another cabinet member?

Are we going through the White House?

Are we going through OMB?

Are we getting the President involved?

What is happening?

Ms. O'LEARY. Well, we have a tendency to go with and at each other in this cabinet. Early on in the week even before the inaugural as we were here, many of us having served in Government before, we were aware of the fact that Government works best when it is coordinated, and it also works best when we can coordinate ourselves, so in the energy and natural resources area we very early on formed our own pod and began to meet either for breakfast or for lunch and sometimes with no meal, each cabinet officer hosting. Let me—Interior, Energy, Transportation, the Environmental Protection Agency, and from time to time others, as issues evolved.

Interestingly enough, later on the chief of staff liked the idea and began to convene meetings of various pods, so in Energy we now have the opportunity to participate in the Commerce, the economic and commerce pod; on areas involving national security, of course I am a member of the National Security Council; and on issues involving the fish hatchery and Bonneville we engage both personally, Secretary to Secretary, and we are often Deputy to Deputy,

and we also engage formally in the economic, the National Economic Council, and we also engage informally sometimes at lunch and through OMB.

I will tell you having now worked in three administrations that I believe this Government and through at least the executive branch is much better coordinated, and a lot of that comes from the cabinet officers themselves who see the crosscut and have a desire to work together.

Mr. HORN. Well, are you getting a resolution of the situation in relation to Bonneville, since you brought up the——

Ms. O'LEARY. Let me say this, there is a proposal on the table that I think meets everyone's needs partially, and that is always the case. The delicate balance out in Bonneville is one that involves the commercial interest very strongly expressed by the aluminum industry, it involves the sports persons. I am a fisher person myself so I understand that need, and then there is the need to ensure that the rates at Bonneville are maintained and there is no rate shock, and that is—I have been on the regulatory side as well. That is a very careful balance. No one will be totally satisfied, but there will be resolution.

Mr. HORN. When you say it is on the table, is it on the table with the affected interests around it or is it on the President's table or the chief of staff's table?

Ms. O'LEARY. It is always on the table with respect to at least matters involving energy, with the stakeholders around because in my experience it does not much matter what we present, it matters that we present something that all individuals who are affected have had an opportunity to address and to have their issues heard. So it is very much collaborative.

Mr. HORN. After the collaborative consultative effort, is there going to be a need for a decision at a higher level than the Secretary of Energy and the Secretary of the Interior?

Ms. O'LEARY. You know, it occurs to me, and you will forgive me, Mr. Chairman, for not having this detail carefully in hand, I know that a proposal, an option has been drafted. I cannot recall now whether the option requires legislation, but I know that it has moved through the interagency, which means that it has been reviewed and I can't frankly tell you at this moment if it will be signed off by the Director of the Office of Management and Budget, which indicates that there was an excellent collaborative effort and most of the cabinet officers involved agree entirely or if it will move up the chain.

I have quite frankly been tied up in other matters so I have not watched that as carefully as I should, but I know that this issue is being resolved and that there is an option for the resolution of this issue.

Mr. HORN. I think you and any politically appointed officer who gets around the country as much as you and the other cabinet members do realize there is a frustration in America about how rapidly decisions are made by "Government," be it the executive branch or Congress or the partnership of the executive branch and Congress to make a law, and solve a problem or get some direction in the appropriations bills or whatever, and I think that is part of the frustration.

And what I think when we talk about organization, we have got to talk about clean lines of authority where if there is a resolution such as Bonneville that needs to be resolved, that can go to a level or a pay grade, as they say in the military, where the resolution can occur. Obviously, that is the President of the United States and/or one of his assistants acting for him to get the affected parties in the room and say, "come on, folks, we have a problem here, we have a time line, money and time is a wasting, let's get something done," and that is what concerns me.

I love this consensus. After all, I was a university president for 18 years.

Ms. O'LEARY. You know how bad it can be.

Mr. HORN. Someone has to assume some leadership. Now, is the President organized to deal with that particular problem?

Ms. O'LEARY. Absolutely, Mr. Chairman, and what I had attempted to outline is a very difficult and intractable problem where people in the same county, in the same town disagree with each other, and what we have done in this instance is not rush to judgment because it has been clear to me no one has wanted us to, people have wanted the balance and everybody has wanted his interests taken care of, and in this administration there is no lack of ability to move things up to get them decided, and I think that we have taken an appropriate course in this case, and the President of the United States knows how to reach in and I have experienced this when he believes that something is going too slowly or he doesn't like the way it is going, so I really mean this, I worked in the Ford administration, I worked in the Carter administration, I have worked in this administration. This ship of state is moving faster than any other I have experienced and with a high level of collegiality, I might add.

Mr. HORN. Well, I thank you. I will now yield 5 minutes to the gentlelady from New York while I go vote, and perhaps I can make it back. If not, you can recess and one of us will come back and continue.

Mrs. MALONEY. Thank you, Mr. Chairman. In an article today in the Washington Post by Stephen Barr, he notes that President Reagan also proposed abolishing the Department of Energy but that when a report and review was done by the Congressional Budget Office showing that it would not save money, the idea was dropped. Has there been any outside study by anybody on how much this would save? Has the Congressional Budget Office done any type of analysis? I know you testified earlier it would be $3.6 million you would save, but has anyone else done any——

Ms. O'LEARY. No, I am not aware that anyone else has done a review, but I would tell you with some degree of frankness that it is difficult to review the plan as now articulated because there is no substance to it, so one has to simply make assumptions about what would happen.

Mrs. MALONEY. Well, assuming that you are correct, that there really is no savings, except that you won't be at the table in the cabinet and a few other people, then the question is, can the functions be performed better elsewhere, the functions of the Department of Energy, do you believe they could be?

Ms. O'LEARY. You know, mine will not be a disinterested answer. I really have enjoyed my tenure in the Department of Energy because I think I brought the right tools to the job.

What I am afraid of is that if you have leadership that simply subsumes a part of the Department of Energy with no knowledge of its challenges nor its history, then you will lose, as I indicated in my colloquy with Congressman Spratt, you will lose care and attention and will not have high level attention.

My Under Secretary Charlie Curtis looks at this problem this way. He says you have a cabinet office for two reasons. One, to move programs. That requires leadership and management. The other is to set policy, and by removing a cabinet focus, you have no one advocating on behalf of these issues, and that either on the national security side or the nonproliferation side ought to give people cause.

It has tremendous cost, and it has cost in global disruption or you might have that same point of view with respect to our environmental management work when you consider that we have environmental sites that need to be cleaned up in 35 States in this union. I could go on and on, but of course I won't.

Mrs. MALONEY. It certainly doesn't make sense to me, but there are a lot of things that don't make a lot of sense to me that are passing in the House of Representatives these days. If it would pass that it is going to abolish the Department of Energy, how would you propose that these functions be dispersed?

Would you propose the merger idea that you have up there or what would you suggest?

Ms. O'LEARY. I like to align and manage the place like a business effort which is what we are now undertaking. I could for a moment focus you on the Senate mark for the Department of Energy. The mark in the Senate budget resolution reduces our budget $14.8 billion.

It implies to me, and I have looked at the marks, that the Senate has taken the same approach that we have—downsize, streamline, cut some programs and visit cost savings to the Department of Energy. It sounds to me and it looks to me more like the plan that not only we have proposed but that we are now implementing.

Mrs. MALONEY. So in other words—I would like to ask another question before I have to go vote. In this article today by Stephen Barr he also quotes a representative who says when the Federal Government does not know what to do with something, they hang it in the Department of Energy.

Would you like to respond to that comment?

Ms. O'LEARY. I read the article and more importantly I did a TV show earlier this week with the gentleman. I would say to you that that comment reflects no understanding nor study of the Department's missions.

Our missions have been the same. They have been reshaped in the movement from the cold war to this post cold war era, but we have received no new missions in the time that we have been in existence. We have simply managed some better now, and our mission of producing weapons has been reduced to simply assuring their safety and reliability and retrofitting them and moving on to

nonproliferation, but, no, people are not waking up every morning and giving the Department a new mission, that is not happening.

Mrs. MALONEY. Your $14 billion in savings is very impressive. Do you believe there are a great deal more savings that we could achieve in the Department of Energy without dismantlement and if so, how?

And then we have got to go vote or we are going to be in serious trouble.

Ms. O'LEARY. I could say very quickly that I have cut as close to the bone without sacrificing important national missions. Every year I have been called upon to find savings, I have been doing this now for about 20 years. I think I could find more, but I also believe that people would have to make a determination in this Congress which one of these missions would be carved, we have taken a severe cut in most of the areas and in the programmatic reductions that we have accomplished already.

Mr. FOX [presiding]. Madam Secretary, could we adjourn for 5 minutes so the Members could vote on the floor? I appreciate Congresswoman Maloney's questions, and I would like to have her continue, and if she will rejoin us we would be very honored.

Ms. O'LEARY. I will be here when you return.

Mr. FOX. Thanks so much. We stand adjourned for 5 minutes.

[Recess].

Mr. HORN. The hearing will resume.

Let me ask you, following up on that Presidential accountability question I began with, and we never really quite finished, how often does a typical cabinet secretary have an opportunity to sit down with the President, go over the problems of their Department and just brief the President eyeball to eyeball? Does that ever happen?

Ms. O'LEARY. That does occur, and it occurs in either of two ways.

One, the cabinet officer asks for the meeting or the President will ask for the meeting, but you need to know that there are much more routinized and well thought-out plans for the presentation to the President of issues that occurs in a much more formal fashion and once again I will tell you in my experience occurs much more thoughtfully in this administration than any other in which I have had the privilege to serve as a subcabinet officer.

Mr. HORN. And that included, as I remember, the Carter and the Nixon administrations?

Ms. O'LEARY. And the Ford administration, that is correct.

Mr. HORN. Not Nixon, Ford?

Ms. O'LEARY. Well, that is appropriate as well. My goings and comings into the White House occurred under President Ford rather than President Nixon.

Mr. HORN. Well, I am rather interested that we discuss that period because I thought one of the more thought-out reorganizations, and nothing ever happened because President Nixon, as we know, had a few other problems, but that was the report of the Ash Commission's "President's Departmental Reorganization Program" where they got down to very few cabinet departments, that would have cut them almost in half. The one that is relevant to this discussion is the outline for the Department of Natural Resources,

and I will have that inserted in the record from page 124 of the President's departmental reorganization program.

Essentially they set up five administrators under the cabinet secretary. There was Secretary, Deputy Secretary, then at the staff level, the General Counsel, under Secretary for Policy, Under Secretary for Management, Assistant Secretary for Research and Development and then five line operating officers heading this administration, Administrator for Land and Recreation Resources in which you would have the wildlife refuges, and parallel to that is the Administrator for Water Resources, Administrator for Energy and Mineral Resources, Administrator for Oceanic Atmospheric and Earth Sciences, Administrator for Indian and Territorial Affairs.

Then we get back to Administrator for Energy and Mineral Resources. They would have the Assessment of Resources, Operating Uranium Raw Materials and Enrichment Program, conduct and support research and development and oversee mine health and safety. In other words, if the example that came out in the testimony of Bonneville came up in this type of cabinet department, it would be very easy for either the Deputy Secretary or the Secretary to call in those administrators, work out an agreement.

It wouldn't be in split cabinet departments. They would be integrated under Natural Resources. I would like your reaction to that. I realize you haven't had a chance to study this in maybe 20 years, but here you have a chance to get problem resolution, not just more kicking around, more consensus, more people, one negative voice stops 90 positive voices, all the rest of this nonsense.

Ms. O'LEARY. I believe, and I will now bore you to tell you that I have spent some time studying management, both in style and in substance, and I am a real student of Drucker as well as Steven Covey. I believe that agreements best are reached when individuals come to the table to get it done rather than to have it done to them, so I am of the collegial group.

I have been all about openness. I have made my regional people meet with people they have never talked to in 40 years, where there is real hatred because there is such disagreement. Interestingly enough, these are now the people who think the Department of Energy ought to continue to exist because they have a voice. They may not always agree. I told you that I thought there were lots more systems within the White House that work well.

I should spend some time talking to you about the National Economic Council, which is one of the true success stories in this administration, and when it was designed, being a student of Government, I pooh-pahed, said it would not work. The reason it works is because the people who are involved in this administration want it to work because we are collegial and we understand that our problems are cross cutting.

There is nothing I do that normally can be contained within my building, and I know how to pick up the phone and call my counterparts, and we are often together, perhaps we are together more as a cabinet than any other group both purposeful and sometimes because we simply enjoy being with each other, we talk about our problems and how to resolve them.

So I think it matters the style of leader, and in this case the President of the United States and how then the cabinet officers

comport themselves. We are encouraged to disagree. The President likes nothing better than to have at it with somebody who has a strong point of view but most importantly this works only if the person with the strong point of view has subject area control of his or her issue. You get no respect if you come to the table and you don't know your subject matter, you don't have the expertise and the experience.

So I believe the system we now have established gets that done, and I don't think in the model that you have outlined the person who is the real cabinet officer could possibly have command of all those subject areas.

I would finally tell you that I am going tomorrow to Paris to chair the International Energy Agency meeting. It is the first time anyone from the United States has done that in 15 years.

I come with an agenda that is all about moving U.S. technology into energy markets internationally. If I were the Administrator of Energy under that cabinet thing you have described, I wouldn't be invited, and the person who is heading that pod wouldn't have the time or the expertise to well represent this Nation's point of view. And I think in this area if you make the box too large, you put the person in charge of that in the position of merely being the processor as opposed to someone who affects policy because that person is experienced and is respected by his or her colleagues.

Mr. HORN. Well, let me ask you this, since you prefer a broad span of control, which is what you are testifying to.

Ms. O'LEARY. I am indeed.

Mr. HORN. What other departments would you recommend be created as you observe the government? I mean, if we can't shrink them, should we increase them so more can be invited to chair international meetings?

Ms. O'LEARY. No, and I understand the point you are making, and I would tell you that if one recognizes that 27 percent of the gross domestic product in the United States is affected by energy use, I think you want me at that meeting and it is a nice thing that I am chairing it this year, but I am not suggesting that we expand the Government, nor do I think that is an appropriate suggestion for me to make simply within the 5 minutes that I have had to exchange with you.

It is something that whoever has responsibility for the executive branch working with the Congress needs to think through against the challenges of this Nation, and the President of the United States who happens to be Bill Clinton, for whom I have the great privilege of working, is pretty comfortable with the arrangement he has got now thank you, as well as I.

Mr. HORN. Well, I can understand that. I had a very long span of control also, and some people enjoy that. On the other hand, there is such a thing that you mentioned earlier, focus. If you are going to get something accomplished, the question is then do you have the right groups within an area where you can get the resolution of conflict, if you will, and not have everything land on the President's desk because the President has plenty of other things to do besides worry about Bonneville.

Ms. O'LEARY. Everything is not on the President's desk. This is a very empowered cabinet. We are free to get in a lot of trouble. I have done it personally.

Mr. HORN. But you agree it is very difficult for a cabinet officer to coordinate other cabinet officers.

Ms. O'LEARY. No, I don't agree. No, I have told you that in my experience this is the most collaborative cabinet we have, I am very comfortable in my arrangements, and I could spend a lot of time going to a lot of meetings to collaborate, and we have them, and I also pick up the phone. Now I am very comfortable in this administration, and have a comfortable working relationship with any number of people simply because our issues do crosscut. No, I am not dissatisfied with the lay of the land nor my ability to move within it. I am a happy camper.

Mr. HORN. Well, that is a new type of cabinet officer. I can remember the Roosevelt administration someone named Harold Ickes. He was a true turf protector and heaven help the cabinet officer that tried to run over him; small though he might be, large he was in scope.

Well, I understand, Madam Secretary, you have to be somewhere else after 12. I don't see any of my Democratic or Republican colleagues back. Let me conclude by thanking you and I think the media and the public should know that Secretary O'Leary has had our full attention for 2 hours to discuss these reorganizational issues.

On May 23, at 10 a.m., the hearing will be continued with two former Under Secretaries of Energy and three former Secretaries of Energy discussing reorganization. Those will be Admiral James Watkins, former Secretary John Herrington, and former Secretary Don Hodel.

So again my thanks, and I wish you well in Paris. May you apply your charm and efficiency and effectiveness to all those delegates. Good luck.

Ms. O'LEARY. Thank you.

Mr. HORN. And get Airbus to no longer be subsidized.

[Whereupon, at 12 noon, the subcommittee was adjourned.]

CONSOLIDATING FEDERAL PROGRAMS AND ORGANIZATIONS

TUESDAY, MAY 23, 1995

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

The subcommittee met, pursuant to notice, at 10:06 a.m., in room 2154, Rayburn House Office Building, Hon. Stephen Horn presiding.

Present: Representatives Davis, Flanagan, Fox, Horn, Kanjorski, Maloney, and Owens.

Staff present: J. Russell George, staff director; Mike Stoker, counsel; Andrew G. Richardson, clerk; Wallace Hsueh, staff assistant; Dave Schooler, minority chief counsel; Don Goldberg, minority assistant to counsel; Liz Campbell, minority staff assistant; and Dave McMillen and Matt Pinkus, minority professional staff members.

Mr. HORN. Ladies and gentlemen, there being a quorum, let's begin this meeting of the Subcommittee on Government Management, Information, and Technology. This is the fourth of nine hearings on Making Government Work. Our focus is on where Federal functions can be reorganized, streamlined or downsized. The growth of personnel has already been stopped by both the administration and the Congress.

Our next task is to find and delete Federal missions that were once justified, but now are better done elsewhere, or just ended. Our key criterion will be, if the Federal Government were not already doing this, would it make sense to take it on as a new Federal mission? We can apply the same criterion to executive branch agencies. For example, if we did not already have a Department of Energy and a Department of Education, the subject of our afternoon hearing, would we establish either one today?

If not, can we agree on these agencies' essential missions; and could these essential missions be distributed elsewhere? Our task is not an easy one. Yet our responsibility and our charter require nothing less than a full commitment to it.

Just as a corporate board of directors must serve shareholders by making its enterprise the most efficient and effective they can, we must also serve the American people by doing exactly that for the Federal Government.

In the private sector, market forces tend to bring about the consolidation or elimination of duplicative activities. The same objec-

tive should apply equally in the public sector. We must first agree on the right goals and activities, which the national government can do best; then determine the most efficient and effective way to achieve these goals and activities.

We must seek to achieve substantial cost saving, whether IBM or the Department of Commerce or the Department of Energy or the Department of Education or the Department of Housing and Urban Development, a rethinking of missions and functions is necessary if we're to meet the needs of our customers and shareholders.

In the case of a Federal agency, those who must be satisfied are the people of the United States, through their elected representatives. The people are the ones who pay the taxes which provide the resources to render governmental services.

With this in mind, we examine today the Departments of Energy and Education. Last week, we heard Secretary of Energy Hazel O'Leary defend the Department against splitting up and elimination, suggesting that such actions would not save any tax dollars. The specter of a worldwide energy shortage, which spawned the Department almost a quarter of a century ago, is not as obvious today. Even if such a shortage were present, perhaps a separate Cabinet department is not the proper vehicle to integrate the needed programs that could be helpful in alleviating such a shortage.

Today, we will hear from five former Secretaries and Under Secretaries of Energy. We will share their perspectives as to the need for the Department. At the conclusion of this series of hearings, I hope we can clearly see whether or not some or all of the functions of the Department should be continued, merged or ended.

In the afternoon session, we'll hear testimony in a similar vein, regarding the Department of Education. Four representatives from the administration and professional organizations will share their expert views on national education goals, functions and services which might best be kept at the Federal level.

The taxpaying citizens who want us to balance the budget and end over a quarter century of annual deficits expect no less. I now ask Mr. Fox of Pennsylvania if he would like to make an opening statement before we swear in the witnesses.

[The prepared statements of Hon. Carolyn B. Maloney and Hon. Michael Flanagan follow:]

PREPARED STATEMENT OF HON. CAROLYN B. MALONEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Thank you Mr. Chairman. I am pleased with the continuation of these hearings, and I look forward to today's testimony. As I said last week, I am skeptical about the current rush to abolish Departments.

I am skeptical because we have done little to determine which functions of these agencies can be eliminated, and which must be preserved. I am skeptical because without that analysis any estimate of savings is fanciful. I am skeptical because my own experience tells me that changing the way government does business is a slow and difficult process. There are very few quick fixes in government.

It is because of my skepticism that I view these hearings as critical and appropriate for this Subcommittee. It is our responsibility to lay the groundwork for a decision process that will look carefully at each agency before we rush to judgement.

Last week the former Secretary of Commerce, Robert Mosbacher, advocated abolishing his former department. That department is home to a variety of functions, from trade promotion, which is sometimes included as part of "corporate welfare",

to the census, which is central to each of us. The Department of Commerce also houses the Weather Bureau, and out in Gaithersburg keeps the yard stick, and the ounce, and the gram by which all others are measured.

People often ask "Why does the government need a weather bureau? Why can't they listen to the ten o'clock news like everyone else?" Of course, without the government weather bureau there probably wouldn't be a weather report at ten. It is a perfectly legitimate to ask if the Federal government should be in the business of predicting the weather. Perhaps that should be turned over to private enterprise. Answering that question is not a simple process. But it is only one small part of determining whether or not we need a Department of Commerce.

Last week we received a letter from the National Association of Manufacturing emphasizing some of the Commerce functions important to manufacturing. I am sure we will hear from more industries with significant exports. They would far rather be supervised by the International Trade Authority at Commerce than the International Trace Commission—an independent agency that some argue is less friendly to business.

Today we will be looking at the Department of Education which is responsible for programs from cradle to grave—elementary and secondary schools, colleges and universities, and vocational and adult education. It is responsible for a vast student loan program, without which most students could not afford college.

The student loan program makes it possible for many of the technicians who fix our cars and air conditioners and dish washers to learn those skills. The Department of Education distributes billions of dollars to local school systems to subsidize the education of children in poverty. Those systems would be seriously hurt if those funds were taken away.

The National Center for Education Statistics, part of the Department of Education, measures our progress towards Goals 2000. Those goals were established during the Bush Administration by a group of Republican and Democrat governors, and the Department of Education was charged with monitoring progress towards those goals. Do we now abandon those goals? Or do we just abandon measuring progress?

The Department of Education is also responsible for the Guaranteed Student Loan Program where most of the collection is private. Some suggest that this responsibility be transferred to the Department of Treasury and the loans collected through the IRS.

There is a fundamental problem with that, and it characterizes much of what is wrong with many of the proposals on the table. Suggesting that the IRS collect student loans indicates a fundamental misunderstanding of how our tax system works. The IRS doesn't collect taxes—employers do. And asking the IRS to collect student loans isn't putting a burden on the Federal government, it's putting a significant burden on employers. The employer will have to find out from the employee how much is owed, collect the money, and, turn it over to the IRS. If our history of collecting other taxes is any indication, the employer will be penalized for any mistakes.

The back-up system to employers collecting the money is to have the IRS check a list of who owes what. Matching to a list is one of the things the IRS is worst at. Every year thousands (millions?) of taxpayers get incorrect notices that they owe money because the IRS makes a mistake in matching their tax return to the 1099's filed by banks, stock brokers, and dozens of other financial institutions.

I will be the first to argue that there are things at the Departments of Commerce, Energy, and Education that can be done better. I also suspect that if we examine all of the functions in these departments we will find many that can be eliminated. I am eager to participate in that work. But it is only after we have done that work that we should talk about what departments should be abolished.

Today there is no record that indicates what will be saved by abolishing any of these departments. Until we have that record, I believe that any action we take to abolish departments is irresponsible.

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

RE: A CASE STUDY OF THE DEPARTMENTS OF ENERGY AND EDUCATION

I am glad to be a part of the ongoing hearings Chairman Horn has called to address the challenge of making government operate more efficiently. After participating in the hearing where current Secretary O'Leary testified to the necessity of preserving the existing Department of Energy, it will be very interesting to hear former

secretaries opinion of the options available for the department. I would particularly like to hear the thoughts of the former secretaries on the appraisal by the National Performance Review that stated some staff in the department is inadequately trained and that certain programs are operating at only 65 percent efficiency. My question is: What kind of return on their investment are the taxpayers who subsidize the department's $17 BILLION budget getting? There has to be a better way to utilize taxpayer money.

Similarly, the Department of Education's budget of $32 BILLION. We must work to make these departments more fiscally accountable. I understand that the department released its own strategic plan for streamlining its functions and that the plan fell short on specifics. I hope to learn if any specifics are available and where they are in the course of implementation.

I would like to thank the witnesses who are here today to shed some light on the tough problems that face these departments and Congress as we try to make government work better.

Mr. FOX. Thank you, Mr. Chairman. You also may have an opening statement from Mr. Kanjorski.

Mr. HORN. Very good. Without objection, Mr. Kanjorski's statement will be put in the record at this point.

Mr. FOX. I just wanted to add to others and members of the committee our appreciation for your leadership on this issue and I'm very pleased and looking forward to the testimony of these excellent witnesses here before us today, so they can educate us on the specific areas of Energy, and what improvements they recommend for our government. Thank you, Mr. Chairman.

[The prepared statement of Hon. Jon Fox follows:]

PREPARED STATEMENT OF HON. JON FOX, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. Chairman, I once again commend your leadership as we continue the fourth hearing in the "Making Government Work" series.

There is widespread agreement that the Department of Education should be reorganized, restructured, or eliminated. While we are taking significant steps to address our deficit, we need to proceed with caution in how we address the educational needs of our children.

As an active advocate of education reforms and programs, and I am eager to support efforts to improve the quality of our children's education. However, I do not believe that increasing our federal bureaucracy is the answer. We need to create an educational system that emphasizes the role of parents, teacher, and communities as catalysts for educational reform. Their involvement at the local level is critical because they represent the true educational needs of our children.

I am aware that the Department of Education issued its "Strategic Plan for the U.S. Department of Education" in December 1994. The report discusses streamlining but did not include specific details. Numerous alternative proposals regarding the administrative and functional structure of the department have been discussed.

I look forward to hearing from today's witnesses who can describe these initiatives.

Mr. HORN. Thank you, Mr. Fox. Now, if all of the witnesses that will be testifying, Mr. Hodel, Mr. Herrington, and Admiral Watkins, will come up, and we will swear you in and begin your testimony. Please raise your right hands.

[Witnesses sworn.]

Mr. HORN. On my list we begin with Secretary Hodel, who was Secretary of Energy in 1982–85; also Secretary of the Interior, 1985–89; now President of the Summit Group International. Mr. Hodel, it's a pleasure to have you here.

STATEMENT OF DONALD P. HODEL, FORMER SECRETARY OF ENERGY (1982–1985); ADMIRAL JAMES D. WATKINS, FORMER SECRETARY OF ENERGY (1989–1993); AND JOHN S. HERRINGTON, FORMER SECRETARY OF ENERGY (1985–1989)

Mr. HODEL. Thank you, Mr. Chairman. It's a pleasure to be here today. I'd like to summarize my testimony, which I've submitted, very briefly; and then to make a couple of other observations if I may.

Mr. HORN. And then throw it open to questions, once all three of you are done. We put your full written statement automatically in the record, after the introduction. So feel free to summarize, and we'll start the clock now.

Mr. HODEL. Thank you, Mr. Chairman. My written testimony had basically two objectives. One was to state clearly that I believe the Department of Energy should be abolished. And I think that that is primarily because it's a policy issue. Having a Department of Energy, I believe, sends the wrong signal to foreign countries and to the United States. It makes a false statement about what the U.S. Government does, or is able to do, with regard to energy.

The second objective was to give some suggestions as to what might be done with its parts. Some of that is policy and some of that is budget. But the bottom line is, I really do believe there is no issue or combination of issues which justifies or requires the retention of a Department of Energy. And I'll be happy to respond to questions regarding that at the appropriate time.

Then I'd just like to add a couple of things, because since I was noted as a witness at this hearing, I've heard from a number of constituencies, or special interests, as they're sometimes called, with regard to their view of retaining the Department of Energy, or particularly, certain of its programs. And I know that the members of this committee or Members of Congress have also been receiving various requests or suggestions, because I've seen some of the correspondence from some of those constituencies.

And I even received a fairly substantial packet and a personal, though unsigned, letter from the Secretary of Energy on the subject. So I know the Department of Energy is putting on at least a modest full-court press on the subject. I've seen articles where Secretary Bill White, who I think is an extremely competent individual, has been openly warning certain constituencies about what will happen to their programs if the department demises.

I think the point is, whether or not there's a Department of Energy, some programs must be cut; and whether or not there's a Department of Energy, some programs must be retained. Some because they are essential, by general agreement, and others probably because of pressure from particular special interests. But I think it's important for the committee, Mr. Chairman, not to confuse the budget issues with the policy issues, relating to the existence of the department. They really are two separate questions.

Now, I know that Secretary O'Leary testified last week. And last week, in the little paper in the small community where I live, there was a Mary McGrory column, which I took great interest in. It was a spirited defense of keeping the Department of Energy, and very laudatory about the Secretary. But really, it's a fantastic article be-

cause it shows the Secretary of Energy essentially has nothing to do with energy.

It talks about the tremendous efficiency she's brought about, and then speaks about public policy activities, but nothing about efficiencies; and then describes, through the balance of the article, a visit to a high school in which she gives away $1 million worth of used security equipment, which I think is a laudatory thing to do, commendable. Obviously, the Secretary is an excellent Ambassador. But the article just makes plain the Department, as she's conducting it, does not have very much to do with energy.

And I couldn't help but think, if that article had been written by one of those proponents of abolishing the Department, it would have been seen as snide and demeaning, because it, by implication, says, it really doesn't have anything to do with energy. And finally, I would draw to the committee's attention, that periodically we see articles showing that there are polls favoring the retention of the Department of Energy, by a fairly substantial margin.

I would urge the committee to recognize that those polls are absolutely meaningless, at best; or worse, they're misleading. I would expect that many people think, rightly, that energy is tremendously important to the United States of America. And therefore, they think we ought to have a government department that deals with it. But the idea is that, in dealing with it, it would do something beneficial. And I think the impulse may be right, but only if government were able to do something sound and reliable and beneficial.

But I really don't believe that it can or should, in the economy that we have, take that kind of leadership role. And therefore, I do believe the Department should be abolished, and its essential parts distributed elsewhere. Thank you.

[The prepared statement of Mr. Hodel follows:]

PREPARED STATEMENT OF DONALD P. HODEL, FORMER SECRETARY OF ENERGY (1982–1985)

Thank you for this opportunity to appear before this committee and discuss the future of the U.S. Department of Energy. In my opinion the Department of Energy should be terminated.

Please recognize that I have been away from the Department for more than a decade. Therefore, many details have changed, and as to those I am not commenting. Certainly, however, others have not, and it is to those I will direct my attention.

First, the very existence of a Department of "Energy" is undesirable. It suggests that the U.S. government is doing or is going to do something about energy beyond what it is capable of doing and beyond what I believe government should do. In many countries the government owns, operates or controls national energy companies: oil, gas, electric. In my experience when those countries deal with the U.S. government they assume that the U.S. government does the same, in part because of the existence of a "Department of Energy."

One of the frequent requests from OPEC countries during my tenure as Secretary of Energy was to hold a "producer-consumer" dialogue, that is, bring together consuming nations such as the U.S., European countries, Japan, etc., and producing nations, such as members of OPEC. The purpose was to "stabilize" world oil prices (by which was meant "reach an agreement on fixing world oil prices"). The U.S. resisted for a number of reasons, but an important one was that, even if we had held such a meeting and even if we had agreed that some fixed price level was appropriate, the Secretary of Energy had (and has) no authority to fix energy prices in the U.S. Further, the Secretary should not have such authority. DOE has no authority to order increases or decreases in price or production, and it should not. Yet, other energy ministers seemed not to understand that fact and continued to seek such a meeting.

On another occasion a major contract for the purchase of LNG from Algeria for delivery to the U.S. was abrogated unilaterally by the U.S. company after a sharp decline in natural gas prices. The Energy Minister from Algeria telephoned me and insisted that I order the U.S. company to honor the contract. I tried to persuade him that I had no such authority, but when the conversation finally ended I was convinced that he simply did not believe that the U.S. Secretary of Energy could not direct the company to perform.

Both of these anecdotes illustrate the importance of not sending the wrong signal to foreign countries about the role of the Department.

Finally, so long as there is a DOE there is temptation on the part of the Congress, the Administration and the American people to assume that DOE has the ability and the authority to solve any energy problems that arise a false and misleading assumption which can lead to inappropriate and unproductive actions, as the history of energy price fixing and allocation clearly shows. That history emphasizes that the one thing Congress and the Administration must resist in the event of an "energy crisis" is imposing price controls and allocation of energy supplies.

Second, DOE has little beneficial impact on energy in the U.S. It is, unfortunately, and "energy" department without an energy mission. The closest it comes is in conducting or funding research. However none of those research projects requires a separate, cabinet-level department to administer the funding.

Third, as for the biennial publication of an Energy Policy, it is nearly meaningless in that DOE has no authority to implement it, and no other cabinet department pays any attention to it except when the policy can be quoted in support of something that department otherwise wants to do. I can recall no occasion where anyone in the energy industry has paid any attention to the national energy policy statement from DOE except to criticize it.

This function, if it were to be continued, could easily be housed in the Department of the Interior. From any practical standpoint, the Department of the Interior has much more to say about energy production issues than DOE because of its leasing responsibilities for the federal lands, its Minerals Management Service royalty collection, the Bureau of Mines, OSM, USGS, etc. The Department of the Interior has in recent years become a major obstacle to U.S. domestic energy production regardless of what DOE may publish as an Energy Policy. The statement of energy policy might as well come from DOI. It could even be beneficial, if DOI would take seriously the language in the policy which states that the U.S. government ought to assist in making federal energy resources available for domestic production—the one area where an energy policy ought to be applicable.

Fourth, if it were my decision, I would terminate or disperse the remaining elements of the DOE among other departments, probably as follows:

The Federal Energy Regulatory Commission, although organizationally housed by statute within DOE, is and ought to be an independent agency as was its predecessor, the Federal Power Commission.

The Defense portion of DOE has, unfortunately, become largely an environmental clean-up division. There is no benefit to having two agencies pursuing very similar programs.

One possibility which would probably be followed if this were not a governmental situation is that a separate division (entity) would be established to be responsible for clean-up. However, because this is government it is probably better that the clean-up budget be required to compete for money with the line activities of the agencies.

An alternative approach would be for clean-up for both DOD and the defense portion of DOE to be done as part of the DOD so that all defense clean-up projects are within one department and the priorities are consistently applied, rather than having two departments competing for funds and, very likely, misallocating those funds. There should be administrative savings in a consolidation. As a part of this process the clean-up standards must be revised. The present system is concerned not with health and safety but with environmental purity which can be achieved only at a horrendous cost—a cost so high that it is, in fact, not reasonably achievable. Real safety can be achieved much sooner at a much lower cost by allowing containment and stabilization of wastes until further experience, research, and technological successes provide better clean-up options. U.S. government research on clean-up should be restricted to hazardous waste streams unique to the government. The private sector has incentives to research clean-up on others.

If the day ever comes when weapons production recommences, that activity could continue in DOD. The "civilian control" issue could be dealt with by appropriate procedures at that time since it is more form than reality, even now. Certainly, although there was nominal civilian control of the process with weapons production housed in DOE, practically speaking, the military significantly controlled the nu-

clear weapons decision process. It should be remembered in discussions of civilian "control" of nuclear weapon production that it is only the production which is under nominal civilian control. Once the weapons are made and operational they are turned over to the military.

The Strategic Petroleum Reserve is a tempting target for those seeking revenues. I have been told that the facilities need upgrading before they could deliver the specified level of output, and there may be some technical problems with which I am not adequately familiar. I believe, however, that, properly utilized, the SPR can still be important and useful. Unfortunately, the chances of proper utilization are slim. When I was Secretary of Energy, we went through elaborate analyses of how SPR should be used. The only sound basis is to offer for sale on a bid basis a number of barrels per day equal to the anticipated shortfall to the United States from an interruption of supply. I dealt with this in much greater detail in my book, Crisis in the Oil Patch. I believe that the analysis is sound. However, unless sound bases for SPR's use can be codified in some binding way, SPR constitutes an enormous opportunity for mismanagement and governmental interference in the domestic market and might be better sold to the highest bidders (phased over time so as to minimize adverse market consequences).

The Power Marketing Administrations are attractive targets for privatization. From 1972 to 1978 I served as Administrator of the Bonneville Power Administration. During that time I often considered this question. I concluded that the balance of power among the constituencies of BPA (and, I suspected, among those of the other PMAs) was such that there was no practical way to accomplish a "spin-off." Public power fears that the investor owned utilities would control BPA and they would lose their preference power. Investor-owned utilities fear that the public power systems would control BPA and use it as an economic weapon against them. Each will support the status quo before it will risk a change which might work to its disadvantage. I explored this question when I was Secretary of Energy and concluded that the politics simply made it infeasible to try at that time.

It was clear to me then, and it is still clear to me that DOE is not necessary or even very helpful to the PMAs. They have been housed administratively for almost 18 years in DOE. It is hard to identify any particular benefits from that relationship. There are thousands of public and private electric utilities in the U.S. which get along just fine without help from the Secretary of Energy.

I am encouraged that the present atmosphere within the administration and Congress is such that the opportunity is much greater. If the administration and Congress followed the example of the U.K. in the privatization of its electric sector and simply mandated that by a given date it must happen and that the government would accept the highest and best bid(s) for these agencies. The industry would find a way to accomplish the objective. It would be extremely helpful in that case for an anti-trust exemption to be provided so that public and private utilities could join together for a combined bid for regional portions of particular PMAs. I do not believe that the DOE or the administration can significantly aid this process because by their very nature they are subject to multiple political pressures. I understand there is a proposal to establish an independent quasi-federal entity called The Forrestal Corporation to facilitate the use of private sources of energy on military bases. This corporation would, also, act as a broker for the federal government in the sale of existing military power facilities. Perhaps, this concept or even this corporation could be charged with the responsibility for obtaining the substantial benefits of divesting the PMAs.

The time has clearly come where PMA transmission can and should be separated from generation and privatized in line with the FERC and Congressional action (in the Energy Policy Act of 1992) of encouraging regional transmission groups in order to facilitate competition and efficient use of resources. Conceptually, generation could be similarly privatized.

Even if privatization is not feasible for federal generation, however, the PMAs, particularly BPA, ought to be relieved of the enormously expensive "social engineering" and environmental subsidies which they are required to provide and, in return, they ought to be required to charge rates sufficient to operate and maintain their systems and repay their federal debt on schedule. This would have a beneficial effect upon the federal budget, and it would require that those hidden subsidies to non-power purposes would have to compete in the federal budget against other worthwhile and useful projects.

The National Laboratories are a great national resource. The best that can be said for DOE, however, is that even after 18 years it has no peculiar expertise or role in managing them, and the labs do more than energy research, as well they should. The justification for the national labs, begun for military purposes, is shifting radically to the commercial side as they try to find a mission and a source of funds.

This is a partial or de facto privatization which should be encouraged. The primarily defense-related labs should be shifted to DOD. The others could be privatized by sale or transfer to non-federal entities, such as universities, foundations, or the like. Government research needs could be accomplished through research contracts with these and other research laboratories.

Research and development grants ought to be restricted in some similar fashion. Any scientific entity, such as NSF, could handle grant programs. Research budgets of DOE have been highly politicized in the past so that projects could not be judged on the merits but rather were kept alive by key Senators or Congressmen as a means of aiding the local economy in some state or congressional district. Note, particularly, in this regard, magnetohydro-dynamics and the clean coal technology program. Research and development expenditures require continuity. Changes of Administrations, Cabinet Secretaries, Assistant Secretaries and so on, disrupt that continuity and cause wasteful expenditures.

The government is ill-suited to develop anything entrepreneurial. When the U.S. government needed supercomputers, it developed the specifications for what it needed and then offered to buy from the private sector computers which met those specs. As a result the U.S. took the lead in supercomputers. This is not unlike the time 100 years ago when America wanted railroads to cross America. Instead of the government trying to build them (in which case they would still be under construction and significantly over budget), incentives were created for private capital to do so. It worked.

EIA, should be abolished. Any of its services with value to the economy could and would be done by the private sector, as they were before, if the government stopped doing them for "free." Any which would not be done by the private sector are probably not of value.

ERA should be abolished forthwith. I understand that some of the entitlement cases are still unresolved after 15 years! If that is true, it is outrageous and wasteful. It ought to be an embarrassment to anyone still connected with the process. If there are any matters of merit remaining after all these years of paying lawyers to pursue them, they should be transferred to the Department of Justice for final disposition.

Policy, International Affairs, and Emergency Response are activities which, as I have tried to show in my earlier discussion, do not serve an essential function which would require the retention of a Department of Energy to fulfill.

I suspect there are other parts of DOE which I have not covered, but none that could not be dealt with in similar fashion. The elimination of some of its functions and dispersal of others to other departments and the termination of the Department of Energy would send the right signal to our citizens and the world.

I wish you every success in your efforts to reduce the size and improve the operations of the U.S. government.

Mr. HORN. Thank you, Mr. Secretary. Let me next call on Admiral Watkins, who came to that position with a unique background for Secretary of Energy, from his former position as Chief of Naval Operations; served as Secretary of Energy 1989–1993, and is president of the Consortium for Oceanographic Research and Development. Admiral Watkins.

Mr. WATKINS. Thank you, Mr. Chairman. My formal written testimony, regarding issues related to the potential elimination of the Department of Energy, I made it clear that I was not here today to either advocate the Department's retention or its demise. In my testimony, I pointed out that in the public debate so far, I have yet to hear a single clear enunciation of who, in the absence of the DOE, is going to assume the heavy burden of responsibility, and be held accountable for the effective management of all nuclear functions that still pertain to the past and future nuclear weapons stockpile.

These include: weapon dismantlement and storage or disposal of residue fissile material; operations and maintenance of the many remaining but badly contaminated nuclear weapons related facilities; resolution of the almost intractable hazardous and nuclear waste disposal issue; oversight of the nuclear safety and radiologi-

cal health component of all the Federal nuclear facilities; and the weapons and non-weapons laboratories, filled with thousands of dedicated scientists, engineers and technical people, who are either essential to weapons stockpile assurance, in the case of the former laboratories, or to a large scale, are dedicated to high risk and costly basic research that can only be done by the Federal Government—that's in both the former and the latter category of laboratories.

If we first fix the responsibility and accountability for carrying out these functions then, we can better answer the question of what organizational entity is best suited. Will it be a new version of the old Atomic Energy Commission? Will it be a new version of the former Energy Research and Development Administration? Or will it be a scaled down DOE, but retain a Cabinet-level head?

Certainly, ownership of the daunting management challenges and facilities I've described cannot be expected to be craved as moneymakers by, and hence given to, the private sector. Further, besides the question of who in the Federal Government is going to be held accountable, is the question of how do you transition from the status quo to a new arrangement? And by this I mean, how is the Congress—particularly the new leadership majority—going to assure itself at the outset that it has not inherited a deteriorating or even a marginally safe nuclear weapons management process?

My experience and assessment of the informal inputs made to me over the past 2 years say that you might be. This is the real issue that needs urgent attention by this committee; and let's hope before more cavalier announcements are made as to who can outdownsize DOE better and faster. I then go on, in my testimony, to lay out a very specific six-step process to fix responsibility and accountability for nuclear and basic research to at least some Federal entity.

I point out, in this process, that all other functions can be either, one, transferred to other appropriate Federal agencies, where reasonable functional compatibility exists; two, sold or privatized; or three, eliminated. It's my belief that functions identified in this category amount to about one-third of today's budgeted programs, and therefore would result in cost savings.

To carry out my suggested six-step process, I would urge the full House Oversight Committee to work jointly with their Senate counterpart, in consultation with the appropriate authorization committees, to establish a small, highly qualified independent review group. This group should have membership taken from the members of the congressionally mandated Defense Nuclear Facility Safety Board; the relevant national research councils of the National Academy of Sciences that have conducted previous studies of nuclear matters in DOE; and other respected bodies in this subject area that have no conflict of interest with the issues at stake.

The chair of this group should be mutually agreed upon by the Congress within 30 days. In turn, the chair should then recommend to the joint oversight committees who the other members might be. I think six to eight would be adequate. I'd be pleased to make suggestions to the committees in this regard. I would then charter this independent review group with dedicated support, provided by the existing Defense Nuclear Facility Safety Board staff,

to report back to Congress within 120 days their findings and recommendations for carrying out the six steps.

In my opinion, this task is achievable within 4 months, in view of the already extensive body of knowledge that exists in that board, which has closely monitored DOE and nuclear management over the past 5 years. In the interim, I would deny any manpower reductions that may now be contemplated for fiscal 96 in those functions identified as having important nuclear weapon management responsibilities.

I would also task this independent review group to develop draft legislation, along lines of, one, the current law regarding management of the Navy's nuclear propulsion program, which was enacted by the Defense Appropriations Act of 1984, Public Law 98–525 of October 1984; and two, the bill sponsored 2 years ago by Senator Cohen, who attempted, without success, to put into law those features of nuclear management that should not be tinkered with by rotating political appointees from either party.

The Cohen bill should be resurrected and used as a second thoughtful blueprint to assist the independent review board in responding to their congressional task. Mr. Chairman, the nuclear function I highlighted as top priority needs to be handled first, with special attention to the maintenance of the highest technical quality at all key levels of its future organizational structure.

To attract and sustain this quality of technical leadership will require both executive and legislative branches to proclaim publicly, once again, that this function remains vital to the national interest; to reassert their insistence that no denigration of quality management in this function can be tolerated; and finally, to see that necessary resources and quality assurance are in place to convince Americans that we are, in fact, managing the nuclear weapons complex competently, and in accordance with nationally and internationally accepted norms and standards.

All this should be done within the next few months, before any final decision is made as to fiscal year 96 appropriations for DOE. Whether this requires a Cabinet officer-led department is unimportant. The chairman of the Atomic Energy Commission was always highly regarded by both executive and legislative branches, so call the new organization whatever you like. But head it with somebody of stature, who both Congress and the White House agree has the requisite scientific, technical and management skills to help assure its effectiveness.

Once this is done, that individual, whether called an administrator, a chairman, or secretary, should nominate to the authorization committees jointly, his or her remaining key five or six associates—all with appropriate technical credentials of experience and demonstrated competence in the requisite skills surrounding the nuclear business. This special review group should be terminated in 6 months. Thank you, Mr. Chairman. I'll open myself up for questions.

[The prepared statement of Mr. Watkins follows:]

PREPARED STATEMENT OF ADMIRAL JAMES D. WATKINS, FORMER SECRETARY OF ENERGY (1989–1993)

Thank you, Mr. Chairman, for inviting me to participate in this hearing today before your Subcommittee. Your invitational letter of April 26, 1995 indicated a par-

ticular interest in hearing my comments as to the efficacy of a variety of recently announced actions to restructure the Department of Energy.

Let me preface my comments by making several points:

- First, with one exception I have not attempted to remain current or been asked to comment officially on any events that have taken place in DOE since I departed there as its Secretary nearly two and one-half years ago. The one exception occurred a few months after I left office when I felt that my successor had moved prematurely, shortly after her arrival, to dismantle a hard-won nuclear safety process which had taken four years to install. That process was directly tailored to the well-accepted procedural changes in world-wide private sector reactor operations emanating from a variety of high level oversight bodies, national and international, following the Three Mile Island accident. As a result, I felt compelled to inform key members of both House and Senate government oversight bodies of my concerns. A copy of my letter of April 28, 1993 to then- Senate Committee on Governmental Affairs Chairman John Glenn and House Energy and Commerce Subcommittee on Oversight and Investigation Chairman John Dingell is attached hereto as part of my testimony today (letter to Representative Dingell identical to that for Senator Glenn).
- Second, I was asked in February 1994 by the General Accounting Office to respond to a questionnaire which requested my input to their review of the mission and management of the DOE, and its possible restructuring. A copy of my letter response to Mr. Charles Bowsher, the Comptroller General, is also attached to my testimony since its contents regarding nuclear stockpile management are germane to this hearing. Copies of that letter were also sent to key Congressional Members as well as the incumbent Secretary of Energy.
- Finally, while I have scanned a number of public reports, like the Galvin Report on the DOE National Laboratories; relevant sections of the Vice President's Report of the National Performance Review; the Secretary of Energy's recently announced strategic alignment and downsizing initiative; the recent Congressional Research Service (CRS) Report for Congress on options related to DOE programs; and now, the Senate and House Budget Committees' just-announced intentions for either a reduced-size DOE or its abolition; I have neither been asked prior to this hearing to participate in, nor comment on, any aspects of these reports or intended actions.

Mr. Chairman, I am not here to advocate either the Department's retention or its demise. I recognize that current leaders of both House and Senate have publicly advocated its abolishment. Whether you do or not is for you to decide. In fact, whether or not the Department of Energy is abolished is not the most important issue. In fact, it misses the point, and masks the much tougher issue of who is going to have responsibility for and be held accountable to the President, the Congress and the American people for the safe and effective management of the nuclear weapon stockpile. This includes: weapon dismantlement and storage/disposal of residue fissile material; operations and maintenance of the many remaining but badly contaminated nuclear weapons-related facilities; resolution of the almost intractable hazardous and nuclear waste disposal issue; oversight of the nuclear safety and radiological health component of all the Federal nuclear facilities; and the weapons and non-weapons laboratories filled with thousands of dedicated scientists, engineers and technical people who are either essential to weapon stockpile assurance (the former) or to large scale, high risk and cost basic research that only the Federal Government can support (both the former and latter). If we fix the responsibility and accountability issue first, based on a sound functional analysis, then we can better answer the question of what organizational entity is best suited. Will it be a new version of the old Atomic Energy Commission? Will it be a new version of the former Energy Research and Development Administration? Or will it remain a scaled down DOE but retain a Cabinet-level head? Certainly ownership of the daunting management challenges and facilities I have described cannot be expected to be craved as money makers by and hence given to the private sector.

Mr. Chairman, I spent over thirty years in the Navy's nuclear power business—from graduate school, finishing my work at the Oak Ridge National Laboratory; to qualifying as an operator on two different nuclear power plants; to working nearly four years directly for Admiral Rickover in the old "N" Building down on Constitution Avenue as his assistant for selection, education and training of nuclear power plant operators; to preparing the necessary executive orders and draft legislation (in close cooperation with House and Senate leaders of the former Joint Committee on Atomic Energy) to help achieve a responsible turnover from Admiral Rickover to his successor in January 1982; to four years as Secretary of Energy.

In the latter assignment, I had been asked by President Bush to come in and "clean up a mess." This "mess" included: restart of the Nation's only tritium produc-

tion reactor, shutdown for egregious safety violations; losses in almost every courtroom in the Nation where DOE was being sued for poor public health and environmental practices; waste pileup to the extent that State governors were threatening facility shutdowns which, in most cases, were justifiable positions because of inadequate addressal by DOE management over many years. The laundry list of past poor practices, none of which would have been tolerated within either the private sector's or the Navy's nuclear power programs, went on and on. My strong belief is that unless we take serious stock of the past, we will surely fail again in the future.

Unfortunately, I see little in either the recent public debate on this subject or in the plethora of reviews conducted to date on downsizing government, that would demonstrate movement in a direction to reassure the Nation that a responsible, thoughtful approach to turnover of all nuclear weapons-related responsibilities to some new management regime is receiving the highest level of attention by White House and Congress. In my opinion, the Congress carries a heavy responsibility to ensure that whatever system is in place by law, things nuclear will be managed on a sustained, highest-priority, visible basis in accordance with well-established norms, long since adopted by responsible nuclear nations. We don't need to learn any more lessons the hard way as we did at Three Mile Island. Yet, my judgment is that we could be headed that way unless the Congress demands a disciplined approach to restructuring DOE insofar as nuclear matters are concerned. Assuring nuclear safety cannot be placed in the same category as every other budget line item when it comes to fair-sharing contributions to deficit reduction. We have proven that there are no short cuts to nuclear safety assurance, fully recognizing that best business practices are, indeed expensive.

In this context, then, Mr. Chairman, I am proposing a strategy for your Committee to consider, irrespective of the avenue you finally decide upon as the most appropriate for restructuring. My suggestion is that a six-step process be carried out as follows:

• First, identify those functions and related manpower which must remain the primary responsibility of the Federal Government, both for funding and oversight, and which should be kept separate from the Department of Defense activities as originally envisioned by President Truman and the Congress. My suggested list of functions include:

— Nuclear stockpile management to ensure weapon reliability and safety; weapon dismantlement; and storage/disposal of residue special nuclear material.

— Operations and maintenance of nuclear weapons-related facilities (i.e. whether operational, shutdown, or awaiting D&D).

— Nuclear weapon facility cleanup (e.g. environmental restoration and waste management); related nuclear waste disposal; decontamination; and decommissioning where appropriate.

— Nuclear reactor and nuclear non-reactor safety and radiological health oversight at all facilities where applicable.

— Nuclear weapons laboratories (i.e. Lawrence Livermore National Laboratory, Los Alamos National Laboratory, and Sandia National Laboratories—New Mexico and California), downsized where it makes sense consistent with agreed nuclear stockpile policy.

— Civilian radioactive waste management (e.g. high level waste repository, research phase only).

Note: These functions are so interconnected that they all should, realistically, remain under a single authority.

• Second, identify those functions and manpower which should either remain the primary responsibility of the Federal Government, or do not seem to fit any other Federal agency, and therefore should be assumed by whatever entity manages the foregoing functions. My suggested list includes:

— Non-weapons laboratories (i.e. (1) multi-program laboratories other than the above three; and (2) most of the program-dedicated laboratories (about two dozen)). (See Appendix 3 for list.)

Notes: (1) I suggest this function be placed under the same "one authority" as outlined above for the weapons functions and laboratories since such a large number of scientists and major investments in facilities are already contained within that set of functions, and no other government entity comes to mind as being naturally aligned to assume budget and oversight responsibilities over these basic research resources.

(2) It is in these laboratories where so much of the Nation's high risk, potentially valuable basic research is conducted, for example, in biological and general sciences, basic and high energy physics, and the like. I discuss this in more detail later in my testimony.

• Third, identify those other energy-related functions and manpower which should probably be retained somewhere in the Federal Government (e.g. Interior, Transportation or other) for at least the remainder of this decade or until we have moved well away from today's nearly fully-regulated (e.g. by FERC, NRC EPA, and State counterparts) power generation industry to a predominantly competitive one. My suggested list includes:

— A much reduced composite of the fossil, renewable, nuclear energy, and energy conservation/efficiency groups and their corresponding R&D programs (see note) as well as the energy policy group, and the quasi-independent Energy Information Administration.

Notes: (1) R&D programs retained should consist of only those potentially high-yield, high-risk basic research ventures which the Congress believes must be supported with Federal funds in order to measure their efficaciousness. For example, those research efforts aimed at understanding their risks to human health and the environment ought to be retained. Research on the effects of fossil energy use on global climate change, whether there are biological effects from electromagnetic fields, or determining the effects of radiation on the human body are the kinds of research that should be retained.

(2) Both Legislative and Executive Branches also need to monitor implementation of the comprehensive national Energy Policy Act of 1992. At periodic intervals, they need to come together to adjust its course as technology or other drivers dictate. Regulatory agencies should not be allowed to set policies over matters they regulate.

• Fourth, identify and place into other Federal agencies those functions and manpower which are best funded and supported by existing missions of other agencies. My suggested list includes:

— Transfer of the Office of Non-Proliferation to the Department of Defense.

Note: The Secretaries of Defense and State, along with the National Security Advisor, are well staffed and equipped to carry out this important function, with continued support directly to them from the weapons laboratories.

• Fifth, identify those administrative, budgetary and legal staff necessary to support the aforementioned transfers to other places within the Federal Government, but only to the extent that they cannot be supported from within the receiving agencies' existing resource allowance.

• Finally, sell/privatize, as appropriate, all other functions currently in existence and their related resource support (material and manpower) that clearly do not need Federal involvement—e.g. power marketing administrations, naval petroleum reserves, strategic petroleum reserve; uranium enrichment facilities for civilian nuclear power plants; and, at some time in the future, privatize civilian radioactive waste management (for development and operations after the research phase).

Now, the plethora of reports mentioned earlier might be useful in efforts to assure "minimum" staff in resultant Federal headquarters, field activities and contract offices. But cutting corners where nuclear matters are concerned should be allowed only after the closest scrutiny by the Congress. Too often, large reductions in staffing seem to be proposed before assured staffing resources to carry out essential functions have been identified, i.e. "cart before the horse." Because of the special circumstances related to managing things nuclear, this could be an irresponsible if not dangerous approach. I would urge this Committee to demand a plan which links "must-retain" functions closely with "must-retain" personnel to carry out these functions effectively and efficiently, i.e. "horse before cart."

So, if the Congress should decide to effect a major restructuring along aforementioned lines, then there should be direction given soon to the Administration to prepare the necessary implementation plan. In this connection, it is my understanding that the DOE has already committed itself to a $14 billion budget reduction over the next five years.

I was astonished to hear this figure earlier this year as DOE budget growth during my tenure there, with full encouragement of the Congress, was significant to help extract DOE from its "mess." Obviously the world has changed significantly since 1992, particularly regarding the amount of new nuclear materials needed in a greatly reduced stockpile. But the fundamental nuclear management principles remain unchanged.

In addition, on May 3, 1995, the Secretary proposed an additional $1.7 billion in savings from management improvements and restructuring activities, such as revising travel procedures and regulations, reducing the use of support service contractors, streamlining activities relating to the National Environmental Policy Act (NEPA), sales of surplus metals such as gold and silver, realignment of certain program activities within the Department, closure of extraneous support offices around

the country, and Federal and contractor staffing reductions. The Secretary also submitted proposed legislation to Congress to achieve the sale of three power marketing administrations and removal of the Federal Energy Regulatory Commission (FERC) from the Department. While these proposed changes could lead to additional savings in the Department's funding, the larger question that needs to be asked is whether or not minimum resource requirements to carry out agreed to "must-retain" functions can still be met. This Committee should demand verification of this relationship as first priority to any acceptance of the Secretary's announced cuts.

Additionally, recent initiatives to reduce spending in all DOE programs provide the opportunity for reform of legislation which many times drives today's costs. I would like to suggest this Subcommittee review the recommendations of a recent report commissioned by the Senate Committee on Energy and Natural Resources to evaluate the environmental cleanup of the Hanford Reservation. Hanford now receives one-quarter of the $6 billion DOE spends on its overall environmental restoration program. The author of the report, Steve Blush, states that the Hanford cleanup is "floundering in a legal and regulatory morass." Regulatory requirements, according to Mr. Blush, are "unworkable, disjunctive, lack scientific and technical merit, undermine any sense of accountability for taxpayer dollars, and most importantly, are having an overall negative effect on worker and public health and safety."

Mr. Blush contends that the Congress has largely created this confusing framework which has given DOE impossible standards to meet in a number of environmental laws. These laws impose, either through the actual statute or implementing regulations, deadlines not technically feasible and criminal penalties for not reaching unreachable goals.

The Blush Report says "Congress must fundamentally change the underlying legal and regulatory framework." While this in itself is a herculean task, you must understand that without fundamental change, government officials regardless of what government organization they belong to, will not truly be able to do a job that targets top priority environmental and health problems based on real risk to workers and the surrounding communities, not just perceived risk.

The nuclear function I highlighted as top priority must be handled separately, deliberately, and with special attention given to maintenance of the highest technical quality in all levels of its future leadership. To attract and sustain this leadership will require both Executive and Legislative Branches to first proclaim this function, once again, as vital to the national interest; to reassert their insistence that no denigration of quality management in this function can be tolerated; and finally to see that necessary resources and quality assurance are in place to convince all Americans that we are in fact managing the nuclear weapon complex competently. Whether this requires a Cabinet Officer-led department is unimportant. The Chairman of the Atomic Energy Commission was always highly qualified and regarded by both Executive and Legislative Branches. So call the new organization whatever you like. But head it with someone of stature, who both Congress and White House agree has the requisite scientific, technical, and management skills to help assure its effectiveness.

I might add one additional thought regarding the more than thirty national laboratories now supported and overseen by the DOE. The fundamental science with which they are involved represents some of the best in the world. A March 1995 edition of a DOE-combined laboratory report entitled "Fundamental Science in the Department of Energy" attests to this. I have provided a copy to each Subcommittee Member for their review. Whatever the outcome of the DOE restructuring exercise, we should be extremely cautious to retain and utilize, efficiently and effectively, the unique intellectual potential and research tools housed therein. The basic research facilities of the Department are only constructed after exhaustive reviews by the best researchers in the field and by groups like the National Academy of Sciences and they have determined the facility in question is indeed the most logical and valuable for the field. While almost all of these facilities are used by researchers from industry, none could be supported solely by industrial users. These are U.S. crown jewels that need our best decision-making and should, in large part, be retained even at reduced funding levels.

You should also seek to get the most for your tax dollars used in these activities. That should include encouraging the Department's researchers to share their expertise and findings with industry where industry is willing to cost-share. This has always taken place in Federal research activities but under the Bush Administration we gave it renewed emphasis. Many of the collaborative efforts in the Department and other agencies had their roots in this philosophy. You should be tough on corporate handouts but you should encourage corporate partnerships. Similarly, under President Bush we tried to have all Federal agencies involved in activities that rely

on science and math encourage activity in local communities to improve education in grades K to 12. This Congress is trying to shape a brighter future for our children and if you are to succeed you must not lose sight of this essential activity.

Let me conclude, Mr. Chairman, by urging this Committee to demand a "horse before the cart" plan be developed by the Administration along lines outlined above, whether or not the DOE is abolished. Only by so doing can the Congress be assured that nuclear matters are under competent management control using well-accepted practices.

APPENDIX 1 TO TESTIMONY

April 28, 1993

The Honorable John Glenn
Chairman, Senate Committee on Governmental Affairs
United States Senate
503 Hart Senate Office Building
Washington, D.C. 20510-3501

DEAR JOHN:

I am writing to make you aware of my concern over developments at the Department of Energy which could have serious effects on nuclear safety. As has been recently reported in the press. The Department's Director of Nuclear Safety has resigned and his organization is being subsumed by other Departmental oversight elements. I have followed these events very closely and feel compelled to bring this matter to your attention. It is a subject on which you and I worked very hard for four years.

At the outset, I want to stress that I am not criticizing the Secretary's decision to reorganize the Department. That, certainly, is her prerogative. Any number of organizational approaches will work, provided adequate number of competent and technically skilled people are in the right places. Rather, what concerns me about the current upheaval at the Department of Energy is the apparent deemphasis of the importance of nuclear safety given by the highest levels of management within the Department. In simple terms, I sense the Department is regressing to the very philosophy that created the mess we found in the late 1980's.

When I assumed control of the Department in 1989, I inherited a weapons production complex that was in extreme disrepair, with a work ethic lacking in any apparent concern or sensitivity for nuclear safety. Key facilities, such as the Savannah River Site reactors, were shut down due to serious safety problems. Others were being operated in casual and potentially dangerous fashion or sat idle in dangerous configurations. Few of my senior managers understood the need to make attention to nuclear safety a coequal with the need to meet production demands. This was reflected throughout the Department by inadequate training of workers and by the absence of adequate nuclear safety standards. The Department's internal oversight elements were clearly ineffective—buried in the Department's bureaucracy and focused on lower priority issues. Despite repeated warnings from external nuclear safety experts and a number of serious operational incidents at DOE facilities, the Department had—prior to 1989—failed to understand and respond to the lessons of the Three Mile Island accident as the nuclear power industry was able to do.

I was tasked by President Bush, and urged by you and other Members of Congress, to take whatever drastic actions were needed to correct the existing situation at the Department to ensure that its facilities could continue to operate safely, whether for cleanup or production missions. We instituted a series of operational and organization changes based on experience and proven effectiveness in the nuclear navy and the nuclear power industry. We recruited qualified managers and clarified their lines of responsibility and accountability. We created self assessment organizations within line management to improve line oversight of our nuclear operations. Perhaps the most effective measure we took to improve nuclear safety in the Department was to improve the effectiveness of the Department's independent nuclear safety oversight function.

I created a new Office of Nuclear Safety under the leadership of Steven M. Blush, whom we recruited from the National Academy of Sciences, National Research Council. Mr. Blush was widely regarded as one of the foremost authorities and toughest critics on nuclear safety at DOE facilities. This new Office of Nuclear Safety was given independent status, reporting directly and freely to me, to ensure that nuclear safety matters could be brought to me and other senior managers in a timely and unfiltered manner. Mr. Blush was included in my daily staff meeting where operations at all DOE nuclear facilities were discussed. Mr. Blush was also included in all decision meetings on operations at DOE nuclear facilities, and further, Mr. Blush had free access to me, day or night, as I felt his issues were the most impor-

tant the department faced. This independence and access provided an important check and balance on the line managers and line oversight elements, which in my experience is critical. Even in an organization such as the nuclear navy, where the crew are schooled and drilled from day one on safety and conduct of operations, you must have effective independent oversight with free access to senior management to ensure that the entire system performs continually at the highest levels possible. It takes years and years to breed attention to nuclear safety and conduct of nuclear operations into an organization—but this same organization can degrade almost overnight without dedicated attention on a continuing basis. It is the potential for rapid degradation that is the possible and unwanted outcome at stake here.

As I reported to Congress upon my departure from DOE, in four years we had traveled together about one-half the distance toward achieving a new and enlightened culture in the Department, one I thought we both supported. Such a cultural change to be elf-sustaining in a large organization requires a sincere belief by nearly all of its nuclear line managers, from bottom to top, that they are the principal beneficiaries of any independent oversight by respected nuclear experts who uncover safety concerns previously unknown to or unaddressed by that same line management.

When the line finally learns to welcome this sort of independent look over their shoulder as a routine way of doing nuclear business, without any special pressure from top management, then the necessary cultural change can be considered as consummated. When this day arrives, a self-sustaining enhancement of the safety and health environment in both workplace and surrounding community is assured. Because that day has not yet arrived at the Department continuing personal involvement and pressure from the top is mandatory.

I sense what may be occurring is counterpressure on top management by the still unconverted "old guard," before the new Administration team in DOE can get on board, to revert to their old way of doing business—i.e. trust the contractors to carry out all nuclear operations on their own and avoid both direct DOE line management responsibility and accountability and DOE independent internal oversight for safety violations or accidents. This was the flawed practice clearly documented in the so-called Crawford Report in 1981; documented again in a report by the National Academy of Sciences in 1987; and found again in most other areas of management when I arrived on the scene in 1989. Virtually all recommendations of these reports had been ignored. As a result, I was faced with multiple facility shutdowns for serious, if not criminal, violations of both well-accepted operational nuclear safety practices and a variety of environmental laws and regulations. Of course, this old guard was extremely threatened by Steve Blush and his office. Many attempts were made to persuade me to "get rid of" Blush and to move his office into that of the Assistant Secretary of Environment, Safety, and Health, thereby reverting back to the old way of doing DOE business.

The actions I see being taken at the Department could have very serious long term consequences for the health and safety of the public. With the drastic changes occurring throughout the world in nuclear disarmament—changes which will result in unprecedented quantities of highly radioactive material being processed, stored and shipped world-wide, this is not the time for the Department of Energy to relax its vigil or to even give the appearance that it does not view this matter with the highest level of concern. We simply cannot afford to go back to the old way of doing business. I urge you to make a thorough review of these developments as soon as possible.

Sincerely,

ADMIRAL JAMES D. WATKINS, USN (RET.)

APPENDIX 2 TO TESTIMONY

June 13, 1994

Mr. Charles A. Bowsher
Comptroller General
General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

DEAR CHUCK:

This is in response to a letter to me from your Director, Energy and Science Issues, of February 1994 (undated) which requested my help in reviewing the mission and management of the Department of Energy (DOE). The subject matter is of such complexity and importance to national security that it does not lend itself to treatment in the format provided. Thus, in a broader context, I am providing my views which reflect the experience of years of naval service during which I served as Chief

of Naval Operations and Member of the Joint Chiefs of Staff and, after such service, Secretary of Energy in the Bush Administration.

Addressing the matter of the future organization of the Department of Energy requires in the first instance that one have a clear view of the manifold problems with which that Department is confronted. They divide themselves into those which pertain to its responsibilities for nuclear weapons and those which pertain to its responsibilities for energy and energy-related matters. While both are of high importance, I consider the former of more urgent moment and it is to those that my remarks are principally addressed.

The central problem of DOE's management of the nuclear weapons situation stems from the fact that the nuclear weapons capability of the United States has taken a sharp turn away from its once strong and relevant posture to one of both significantly reduced size and reduced relevance. But even with a stockpile of reduced size, there are substantial indications, at least externally, of the lack of a sound, coherent national policy governing what this residual capability must be in furtherance of national defense interest. Whether or not such a policy now exists, there is nevertheless, growing evidence of less forceful commitment to and increasing loss of qualified leadership in the many aspects of maintaining our nuclear weapons capability. At whatever level, this capability needs to be credible, safe and fully ready to deal with contingencies which may still arise in the future as rogue leaders rattle their fledgling nuclear sabers.

As a consequence, the traditionally superior scientific skills essential to ensure a credible and safe stockpile, skills historically embedded in our vitally important national weapons laboratories, are being allowed to be dissipated and diverted from their fundamental mission. Accompanying this dissipation, there is a progressive weakening in the nuclear weapons management capabilities of the Department of Energy. This impending atrophy of weapons capability is happening at a time when the DOE is confronted with a plethora of difficult and related problems associated with dismantling large numbers of weapons, devising ways of safely storing excess plutonium, and coping with the material and other problems of maintaining an ever-aging stockpile with, over time, its attendant safety problems. In this connection, I am in receipt of two sets of Recommendations and four reports on weapons-related safety matters from among those sent to the Department of Energy by the Defense Nuclear Facilities Safety Board in just the last 18 months. These documents are also available to the public.

While it may be important to examine the organizational arrangements which, as your study suggests, could be contributing to the extant deteriorating situation, it is even more important to recognize that the evolving potential nuclear weapons management crisis has a fundamentally deeper root-cause than that of organization. In fact, in my opinion, it more likely lies quite simply in the decline of attentive, committed, and skilled leadership among those who have the responsibility for maintaining a safe and credible nuclear weapons posture in both the Departments of Energy and Defense. Unless this fundamental defect is recognized, there are no organizational rearrangements which can hope to be more than a palliative. In fact, in this instance, some organizational changes, apparently contemplated by the General Accounting Office (GAO) study, could deceive others that corrective action is actually being planned and thus postpone the urgently required personnel actions needed now.

It is my belief that, were an objective assessment of the management structure of the DOE to be conducted, it would reveal that several key officials at various levels do not have the experience to manage the nuclear weapons programs for which they are responsible. If this lack is found in too many who are charged with implementing actions at all management levels in both Headquarters and Field organizations, including operating contractors, then GAO and Congressional oversight committee attention should focus on quality of people as the urgent matter. That the management deficiencies which may be uncovered in such an assessment are probably not attributable to organizational arrangements is derived by comparing the nuclear weapons program with the naval reactors program, a joint program of the Department of Energy and the Department of Defense. During my tenure as Secretary of Energy, I recall having received a GAO report (GAO/RCED-91-157) on the naval reactors program which was highly favorable following a comprehensive assessment of that program. As we both are aware, the management and technical strength of the naval reactors program is to be found to a larger degree in the attention given to the selection, education, and development of individuals of outstanding capability and promise. It is this kind of attention that is in serious need of restoration in the nuclear weapons program today.

Citing this contrast is to suggest that the nuclear weapons program can only recover its strength if it selects and assigns those with the demonstrated competence,

technical knowledge, and leadership to key nuclear weapons management positions in the Department of Energy and Department of Defense. The obstacles are simply too formidable to do otherwise. Organizational fixes will undoubtedly be needed as well. But until individuals with the recognized leadership and other needed qualities are installed at all key levels of management, organizational changes should be deferred. The current Under Secretary of Energy, for example, is one key official who could help lead such an assessment within the DOE.

There are precedents for my position in this matter, a position based on over 40 years experience in nuclear management. For one example, there is the Defense Nuclear Facilities Safety Board. Board Members are required by its enabling legislation to be "respected experts in the field of nuclear safety." A notable accomplishment of that organization has been in promptly building a highly competent staff using methods similar to those of the naval reactors organization. Thus, if the Department of Energy is to retain responsibilities for nuclear weapons programs, provisions must be made that they are required to be under the direction of senior officials who are "respected experts" in nuclear weapons technology.

As a result of the foregoing, it is my strong recommendation that GAO terminate consideration of the kind of organizational changes implicit in the GAO questionnaire. Instead, GAO should devote full attention to identifying and delineating the management competence and other qualifications needed at every key, leadership level, as I have outlined. It should then recommend, as a matter requiring urgent action, that these positions be filled at once with leaders who have the demonstrated commitment, management experience, and technical competence in nuclear weapons work. Further, I recommend proposing corrective and enabling legislation which firmly pins down these positions and associated qualification requirements lest they be circumvented now or in the future. Otherwise, we cannot expect that the Department of Energy and the Department of Defense to carry out their unique and heavy responsibilities to the nation for a safe and reliable nuclear weapons stockpile.

Because this subject is closely related to that addressed by me in a letter to certain Congressional leaders test year (copy of one letter enclosed), I am taking the liberty of sending a copy of this letter to the same individuals.

Sincerely,

JAMES D. WATKINS
President

APPENDIX 3 TO TESTIMONY

Table 27-1-DOE multiprogram and program-dedicated laboratories

Facility	Location	Contractor
Multiprogram laboratories:		
Argonne National Laboratory[a]	Argonne, Illinois	University of Chicago
Brookhaven National Laboratory[a]	Upton, New York	Associated Universities, Inc.
Idaho National Engineering Laboratory[b]	Idaho Falls, Idaho	EG&G Idaho Inc.
Lawrence Berkeley Laboratory[a]	Berkeley, California	University of California
Lawrence Livermore National Laboratory[c].	Livermore, California	University of California
Los Alamos National Laboratory[c]	Los Alamos, New Mexico	University of California
Oak Ridge National Laboratory[a]	Oak Ridge, Tennessee	Martin-Marietta Energy Systems, Inc.
Pacific Northwest Laboratory[a]	Richland, Washington	Battelle Memorial Institute
Sandia National Laboratories[c]	Albuquerque, New Mexico, Livermore, California, and Tonepah, Nevada.	AT&T Technologies, Inc.
Program-dedicated laboratories:		
Ames Laboratory	Ames, Iowa	Iowa State University
Bates Linear Accelerator Center	Middleton, Massachusetts	Massachusetts Institute of Technology
Environmental Measurements Laboratory.	New York, New York	—[d]
Inhalation Toxicology Research Institute	Albuquerque, New Mexico	Lovelace Biomedical and Environmental Research Institute
Laboratory of Biomedical and Environmental Sciences.	Los Angeles, California	University of California
Laboratory of Radiobiology and Environmental Health.	San Francisco, California	University of California
Michigan State University—DOE Plant Research Laboratory.	East Lansing, Michigan	Michigan State University

Table 27-1-DOE multiprogram and program-dedicated laboratories—Continued

Facility	Location	Contractor
National Institute for Petroleum and Energy Research.	Bartlesville, Oklahoma	Cooperative Agreement DOE/National Institute for Petroleum and Energy Research
Notre Dame Radiation Laboratory	Notre Dame, Indiana	University of Notre Dame
Oak Ridge Institute for Science Education.	Oak Ridge, Tennessee	Oak Ridge Associated Universities
Savannah River Ecology Laboratory	Aiken, South Carolina	University of Georgia
Savannah River Laboratory	Aiken, South Carolina	Westinghouse Corporation
National Renewable Energy Laboratory	Golden, Colorado	Midwest Research Institute
Morgantown Energy Technology Center	Morgantown, West Virginia	—[d]
Pittsburgh Energy Technology Center	Pittsburgh, Pennsylvania	—[d]
Princeton Plasma Physics Laboratory	Princeton, New Jersey	Princeton University
Bettis Atomic Power Laboratory	West Mifflin, Pennsylvania	Westinghouse Electric Corporation
Knolls Atomic Power Laboratory	Schenectady, New York	General Electric Corporation
Energy Technology Engineering Center	Canoga Park, California	Rockwell International Corporation
Femmi National Accelerator Laboratory	Batavia, Illinois	Universities Research Association, Inc.
Stanford Linear Accelerator Center	Stanford, California	Stanford University
Stanford Synchrotron Radiation Laboratory.	Stanford, California	Stanford University
New Brunswick Laboratory	Argonne, Illinois	—[d]
Continuous Electron Beam Accelerator Facility.	Norfolk, Virginia	Southeastern Universities Research Association
Superconducting Super Collider Laboratory.	Dallas, Texas	Universities Research, Association, Inc.

[a] Oversight by the Director of Energy Research.
[b] Oversight by the Assistant Secretary for Nuclear Energy.
[c] Oversight by the Assistant Secretary for Defense Programs.
[d] Government-operated facility.

Mr. HORN. Thank you very much, Admiral. Our last witness on panel one is the Honorable John S. Herrington, former Secretary of Energy from 1985 to 1989, now a California attorney and businessman. Mr. Herrington.

Mr. HERRINGTON. Thank you, Mr. Chairman. It's a privilege to appear before this committee, and submit my comments on the proposal to eliminate the Department of Energy. In 1979 and 1980, Ronald Reagan campaigned on the unique idea that the Departments of Education and Energy should be closed. At that time, it was unheard of for a President of the United States to propose elimination of a whole department from the Federal Government.

During his administration, many attempts at carrying out this promise were made by Secretary Hodel and myself, who were frustrated again and again by the Democratic leadership in Congress. Once again, Ronald Reagan was ahead of his time, for here we are, 15 years later, finally giving serious study to this proposition. Before I begin my remarks, I'd like to say that during the time I was Secretary of the Department of Energy, I had the good fortune to work with some of the finest men and women in Washington, and in government.

I still count some of them among my friends. My comments today are not aimed at them, but at the Department and its mission, and how we might together achieve a more effective government at less cost to the taxpayers. The Department of Energy is a large industrial complex that enriches uranium, builds submarines, spy satellites, electric cars, atomic reactors, warheads for nuclear bombs, and hands out money to poor people to make their homes more energy efficient.

It buys and sells oil; it runs the largest laboratory complex in the world; and it engages in many more activities. President Carter established this department with the noble goal of making America energy-independent. Thereafter, billions and billions of taxpayer dollars were spent by the Department of Energy in the name of energy independence. Most of the time, the results have been very mixed, at best. By far, the largest example of this was the $66 billion Synthetic Fuels Corp. And its worse project, in my estimation was the Great Plains Coal Gasification Plant, which resulted in the largest foreclosure on the courthouse steps in the history of the Federal Government—a $2 billion loss.

There were many, many other examples of this same kind. DOE has built wind machines; experimented with wave and sun power; developed batteries, fuels; gave grants to almost anyone with a new idea, or an old one, for that matter. And not surprisingly, DOE was soon constructing highways, of all things, and buildings at favored universities. Projects that failed were located in appropriate congressional districts continued to receive long-term funding.

For example, the coal technology called MHD was ranked at the bottom of the list by almost every expert in the country, but it continued to be funded at the rate of $20 million to $30 million a year, after this information was known to all. And it was a disguised subsidy to a utility company in the Northwest. The Department of Energy is perfectly positioned for downsizing, streamlining, or total elimination, in this era of. I'd like to give you some examples.

One, eliminate all energy research and development programs, and privatize the government-owned laboratories engaged in this research, with the exception of laboratories dedicated to weapons development, which should work under the Defense Department or the new structure that is designed for the weapons program. Two, eliminate all energy conservation funding, including State grants and research programs. Three, privatize the naval petroleum reserve. Four, privatize the U.S. uranium activities.

Five, privatize the five Power Marketing Administration and the hydroelectric generating facilities. These same problems exist, by the way, in BPA, and it should be looked at also. Six, make the Federal Energy Regulatory Commission an independent agency. Seven, close down the Energy Information Administration. And eight, transfer all nuclear weapons functions to a newly created Under Secretary in the Department of Defense.

The defense programs specifically amount to over two-thirds of the departmental budget—a fact that few Americans know. These programs have served us well, and as we move into the 21st century, nuclear proliferation will be one of the principal threats to the security of our citizens and to the world. The country requires a strong, viable program for development of weapons and weapons defense. The program should include testing, verification, and experimentation.

It is amazing to me that at a time when we are having a national debate on gun control and the right of citizens to bear arms, the just man armed syndrome, in many ways a health debate, we are at the same time unilaterally shutting down the nuclear weapons program, and disarming the country without a debate on this important issue. We have served as the world's policemen, and we

are in the process of disarming our police force at a critical time, without even a mention or a discussion.

The current administration, and especially their officials at the Energy Department, have very little interest in keeping the weapons program healthy; they don't believe in it. There is a radical denuclearization agenda in this administration, and an avowed anti-nuclear activist throughout the Department's senior management. This is not good for the country's future. I thank you for the opportunity to testify, and I'd be pleased to answer any questions.

[The prepared statement of Mr. Herrington follows:]

PREPARED STATEMENT OF JOHN S. HERRINGTON, FORMER SECRETARY OF ENERGY (1985–1989)

Mr. Chairman, it is a privilege to appear before this committee and submit my comments on the proposal to eliminate the Department of Energy.

In 1979 and 1980, Ronald Reagan campaigned on the unique idea that the Departments of Education and Energy should be closed. At that time, it was unheard of for a President of the United States to propose the elimination of whole departments of the Federal Government. During his administration, many attempts at carrying out this promise were made and were frustrated again and again by the Democratic leadership in Congress. Once again Ronald Reagan was ahead of his time, for here we are fifteen years later finally giving serious study to this proposition. Before I begin my remarks, I would like to say that during the time I was Secretary of the Department of Energy, I had the good fortune to work with some of the finest men and women in Washington and in government. They went through the oil shocks of the 1970's. They executed the Reagan era build-up. They endured the Bush administration witch hunts for environmental law breakers, and they are surviving the political correctness of the Clinton administration. They are true public servants who always tried to do what Congress and the executive branch wanted them to. The country owes them a debt of gratitude. I still count many of them among my friends. My comments today are aimed not at them, but at the department and its mission, and how we might together achieve more effective government at less cost to the taxpayers.

The Department of Energy is the only department of the Federal Government that can be described as resembling a large industrial complex; it enriches uranium, builds submarines, spy satellites, electric cars, atomic reactors, warheads for nuclear bombs, and hands out money to the poor to help them make their homes more energy efficient; it buys and sells oil, runs the largest laboratory complex in the world, gathers information and engages in hundreds more activities.

President Carter established the department by bringing together many urgent programs of the Federal Government. He told the American people in a famous speech that this was "the moral equivalent of war" with the noble goal of making America energy independent. Thereafter, billions and billions of taxpayer dollars were spent by the Department of Energy in the name of energy independence. Most of the time, the results have been mixed at best. By far the largest example of this was the sixty-six billion dollar synthetic fuels corporation. In that program, the greatest failure was the great plains coal gasification plant. Built by the government at a cost of two billion dollars for the purpose of turning lignite coal into natural gas, the facility operated beautifully and was an engineering marvel. The problem was that the gas had to be sold at over $6.00 per m.c.f. to be profitable. The market at that time was under $1.50. Typical of government, the proposed solution was Federal price supports for the gas to keep the plant running. This resulted in the largest foreclosure on the courthouse steps in the history of the Federal Government.

There were many, many other examples of the same kind. DOE built wind machines, experimented with wave and sun power, developed batteries and fuels, and gave grants to almost anyone with a new idea, or an old one for that matter. Not surprisingly, DOE was soon constructing highways in specific states and buildings at favored universities. Projects that failed and were located in appropriate congressional districts, continued to receive long-term funding. For example, a clean coal technology called MHD was ranked at the bottom of the list by almost every expert in the country, but it continued to be funded at the rate of twenty or thirty million a year for years after this information was known. It was a disguised subsidy for a small utility in the northwest.

While the Department of Energy has under its jurisdiction many vital and necessary activities of the Federal Government. It is perfectly positioned for downsizing, streamlining, or total elimination in this era of smaller, more efficient government. I would like to give you some examples:

Uranium enrichment: the formation of the U.S. Enrichment Corporation was under discussion in 1980, and has been ever since. The DOE has experimented with three types of enrichment technologies and has spent hundreds of millions of dollars on development. The gas centrifuge alone cost billions and never was operational. Where the Federal Government and Congress are concerned, the concepts of capital investment, cost of production and price are usually unrelated. Any movement toward privatization would benefit tax payers. This activity is a business and needs to operate like one.

Naval petroleum reserves (NPR): established near the first world war with an idea that oil fired navy ships needed a reserve of crude oil, it has served the country well, but it is no longer necessary and the activity needs to end. The NPR, and assets like it, should be sold.

Power marketing agencies: born in the 1930's with the help of 2% loans from the Federal Government, power marketing agencies have served the country well, but they have also become victims of politics. It is no accident that during the 1980's we saw utility bills in certain counties of Washington State costing $34, while the same bill in Texas or New York would cost $234. These agencies should be privatized, or sold to utilities. They are distorting the market. Although it is not a part of the Department of Energy, there are similar problems with the Tennessee Valley Authority which need to be addressed.

I would like to say a few things about defense programs and the national laboratories. Defense programs amount to two-thirds of the departmental budget, a fact that few Americans know. These programs find their roots in the Atomic Energy Commission, and the old "atoms for peace" project of 1952. They have served us well and the scientists who participated include some of the greatest names in American scientific history. As we move into the 21st century, nuclear proliferation will be one of the principal threats to the security of our people and the world. We see the beginning of it today. The country requires a strong, viable program for development of weapons and weapons defense. The program includes testing, verification and experimentation. It is amazing to me that at a time when we are having a national debate on gun control and the right of citizens to bear arms, in many ways a healthy debate, we are at the same time unilaterally shutting down the nuclear weapons program and disarming the country without a debate on this important issue. We have served as the world's policeman, and we are in the process of disarming our police force at a critical time, without even a mention or a discussion. The current administration, and especially officials at the Energy Department, are relics from the N.R.D.C, and have little interest in keeping the weapons program healthy. They don't believe in it. The center for security policy recently published a decision brief citing the radical denuclearization agenda of Dan Reicher, Secretary O'Leary's deputy chief of staff and other avowed anti-nuclear activists among the department's senior management. The defense program's function of the Energy Department could and should be transferred to the Department of Defense.

As to environmental cleanup, the GAO has noted that "DOE has received about $23 billion for environmental management since 1889 . . . And little cleanup has resulted." this program has been badly mismanaged. It too could be easily transferred to the Department of Defense.

Finally, the national laboratories are scrambling to find work because they have been taken out of the weapons business. They want something to do so they won't lose funding. In my home State, the University of California, managers of Livermore and Los Alamos, have, for years, been trying to get out of the weapons business. The Clinton administration is playing right into their hands. If there has in fact been a national decision to take the laboratories out of the weapons business, and I do not think there has been, then the solution should be to privatize the laboratories. In this way they will become more efficient, and one of the traditional shortcomings of the existing system, technology transfer, will be improved.

I thank you for the opportunity to testify and will be pleased to answer any questions.

Mr. HORN. We thank you and all of your colleagues for your very thoughtful and pertinent testimony. And I'm hopeful, before we take any action, my colleagues on this committee will read your full statements, because they are very well done, by all three of you, in terms of some of the historical analogies here. Let me start in

with a few basics. Each member will have 5 minutes to question, and we will rotate between the sides here. We have Mr. Kanjorski, Mr. Fox and Mr. Davis here.

The Energy Department, as we know, was created in 1977 by President Carter. And of course, the original justification was, we had a series of international energy shortages. One of the purposes was obviously conservation; control of Federal supplies of power; and develop alternative sources of energy. Shortly after the creation, the OPEC oil embargo collapsed, without any assistance from DOE or the United States.

Although, obviously, a lot of politics went on behind the scenes, in terms of the United States. We all know oil, our basic resource, is a declining resource, no matter how you look at it. We might have tertiary recovery, not just secondary recovery. We might discover some new fields. But there is a fixed supply. We're never quite sure what that fixed supply is. Given that fact, if we now had to create an Energy Department, would each of you recommend that it be created?

It is now here. The question is, if, at this point in time, given what we know about world energy supplies, would we create an Energy Department with a major goal to find alternative sources to husband existing sources, et cetera. Let's forget the nuclear aspect a minute, even though that's perhaps two-thirds of the Department's budget. Let's just talk about basic energy, which is what the average citizen is thinking about. How do you feel about that? Mr Hodel.

Mr. HODEL. Mr. Chairman, there's no doubt in my mind that I would oppose it, on the grounds that it was not necessary; that any functions in the energy arena, distinguished, as you've said, from the nuclear, that needed to be done by the government could be done through other existing agencies.

Mr. HORN. I note in President Nixon's and Mr. Ash's papers relating to the President's departmental reorganization program, which came out in February 1972, under a department of natural resources, their solution was to have an administrator for energy and mineral sources. And it would assess resources; operate the uranium raw materials and enrichment program; conduct and support research and development; oversee mine health and safety.

Then you had some other things we might call energy-related, spread in other parts of the department. Now, you have a unique background, having chaired both Departments, as a member of the Cabinet. What is your feeling as to whether some of the programs of Energy could be integrated in a department of natural resources, which would mostly contain what is in the existing Department of the Interior?

You might well put the Environmental Protection Agency in there. There's a whole series of things which one could argue would then get some coordinative relationship by one Cabinet officer. How do you feel about that?

Mr. HODEL. I think that would make more sense, Mr. Chairman, than having a separate department. I should tell you that when the Department of Energy was in the process of being created, I served at that time as the head of the Bonneville Power Administration, and was at that time reporting to the Department of the Interior.

It was my belief then, and I think actually was shared by the chairman of the Energy and Natural Resources Committee of the Senate, Senator Jackson, that there should be a department of energy and natural resources, which would have Interior and a lot of these energy type functions in it.

But for reasons I'm not fully aware of, which I think probably had to do with the politics of the time, that wasn't deemed to be feasible. It made a lot more sense to me because, as I say in my written testimony, the Department of Interior, because of its major role in the development of Federal lands, has really more to say about the actual production of energy in the United States than does the Department of Energy.

The Department of Energy makes policy statements and funds research. But the actual lands and resources—oil, gas, coal resources on Federal lands—are managed by the Department of Interior. And I think it would be helpful to have a combined management. Because frankly, when the Department of Energy issues its policy statement, no other Cabinet department pays any attention to it unless it suits their purposes for some reason, so they can quote it as a make-weight.

But it doesn't guide anybody's policy. So it's not a useful document, in that sense.

Mr. HORN. Mr. Herrington, any comment?

Mr. HERRINGTON. I have one comment. I would agree generally with what Secretary Hodel said. The Federal Government is very bad at developing new energy technologies. They're not efficient; they have no profit motive; and there's no stake in it. A perfect example was the Great Plains that I mentioned in my statement. It was a magnificent plant; it was engineered perfectly; it was gorgeous.

The problem is, it turned gas out at $6 and MCF into a market of $1.50. And the developers came back with a government guarantee loan and said, we want price support. I said, we've tried that in agriculture; it doesn't work that way. We need to participate on a co-basis with the private sector on several criteria that we could set up.

Mr. HORN. Admiral Watkins.

Mr. WATKINS. I agree, Mr. Chairman, that I would certainly not recommend establishing a Department of Energy today. I also agree with Mr. Hodel that there are many, many features within the existing energy branch of the Department of Energy that rightfully belong within the Department of Interior, and a much downsized group. But I will say this, that I think it's a mistake to, on a de facto basis, give any follow-on legislative action proposal from the executive branch, or even from Congress without the executive branch, on follow-up to the National Energy Policy Act of 1992.

We put together an integrated package—overwhelmingly passed by over 90 percent of both the House and the Senate. And somebody, every 5 years, ought to review the long-range views of the Nation and decide what's best for the Nation. Because if you, on a de facto basis, give the policy setting to the Federal Energy Regulatory Commission, to EPA, or to the Nuclear Regulatory Commission, you're making a mistake.

We should not allow regulators to set policy. And that's what we were doing for years. So I would say, within the Department of Interior, if that's where this function is going to go, it should be a small function; but it should be a knowledgeable function. And I would disagree with the recommendation to close the Energy Information Agency. That serves the Congress. It's a quasi-independent organization. And it serves the entire industry. It's the only repository of energy data I know of in the Nation.

So that is useful to the private sector. And I don't know who else is going to fund something like that. So I would say the EIA, which is what it's called, and it could be a downsized version of that. And some small cadre of the best in energy policy should be in Interior. And I see—in fact, that's very consistent with my written testimony. So I would move in that direction, and give back to Interior what properly belonged to them at the outset.

Mr. HORN. Thank you, Admiral. I now yield to the gentleman from Pennsylvania, Mr. Kanjorski.

Mr. KANJORSKI. Thank you, Mr. Chairman. Gentlemen, listening to your testimony, it seems to me that there isn't any energy crisis, and no need for energy policy in the future. Is that the conclusion you want the Congress to reach? Where do you see the future energy needs of the United States being met? As I understand it, almost two-thirds of our oil is imported. And that's only likely to go up.

Now, how would you decide—you want to put that in natural resources? Is that the—or Commerce, the way Commerce is going; or do we need another department?

Mr. HODEL. If I may respond, I testified recently before the Senate Foreign Relations Committee that I believed the increased dependence upon imports is not healthy for the United States; that I believe we have a significant amount of oil and gas still to be discovered and produced in this country. But I don't see that the Department of Energy provides any assistance in that arena. And there will be those who dispute that.

There will be people in the industry, who are currently sharing funds in partnership programs with the Department of Energy, who will argue that they need to continue those programs. And I believe programs can be continued without having to continue the department. I don't see that, in the event of a crisis, the Department of Energy offers us any hope of successfully dealing with it. The risk, in fact, is that the Department of Energy will attract congressional action which will give the Department stand-by price and allocation authority, and they will be implemented.

And the only thing we learned, I think, in the 1970's, about price controls and allocation of energy, is that it leads to shortages and gas lines. So my view is that the department, by existing, is, in part, an attractive nuisance, if you will, in the event of a crisis.

Mr. KANJORSKI. So I understand that after all these billions of dollars in these 15 years that we've spent, and your management of the agency, it's your final conclusion that that was all a waste of time, and unnecessary?

Mr. HODEL. Oh, it would be hard for anybody to say, may career was a waste of time. So I'll give you a justification, which is that I think you can't spend the billions and billions and billions of dol-

lars that have been spent by the Department of Energy on energy issues, without having made some useful contributions. The question is, did we get our money's worth? And I'd have to say, I don't think we did.

Mr. KANJORSKI. Well, the question isn't, did we get it? How could we have gotten our money's worth? Do you think just the private sector would handle this?

Mr. HODEL. I think if the administration and Congress had an energy policy which said, we want to encourage rather than discourage the development of domestic resources—and by the way, today, this administration, under the laws that exist, in my view, is discouraging development of oil and gas resources. They give a lot of lip service to something else. But the fact is that there is not a lot of encouragement for the use, development of domestic resources, which are available; but are treated as if we can't touch them because it would defile the planet in some fashion.

But then we buy the resource from elsewhere. I think that changing those policies and creating incentives for domestic development of resources would have a profound impact on the level of imports for an extended period of time; and that that would be far more productive than the Department of Energy spending hundreds of millions and billions of dollars in research programs, which may or may not ever have a pay-off.

Mr. KANJORSKI. Who, primarily, received these hundreds of billions of dollars in research programs? Was it John Smith in my constituency, or was it the energy industry?

Mr. HODEL. I think the—you'll have to look at the specific programs, and maybe others can answer that. But my impression——

Mr. KANJORSKI. Well, you mentioned Bonneville or——

Mr. HODEL. Pardon me?

Mr. KANJORSKI. One of the witnesses mentioned Bonneville.

Mr. HODEL. I was head of the Bonneville Power Administration.

Mr. KANJORSKI. No, the gasification project.

Mr. HODEL. Secretary Herrington discussed that.

Mr. KANJORSKI. OK, Mr. Herrington, who were the developers of that project?

Mr. HERRINGTON. It was a consortium in the private sector, but there was a government——

Mr. KANJORSKI. Who was in the private sector that developed that?

Mr. HERRINGTON. You had three large companies.

Mr. KANJORSKI. What were their names?

Mr. HERRINGTON. One was DuPont.

Mr. KANJORSKI. DuPont Corp. What's the next name?

Mr. HERRINGTON. There was one—I can't remember the others. I'll get them for you, 1 second.

Mr. KANJORSKI. And these brilliant leaders of privatization and industry sucked the U.S. Government and taxpayers out of $2 billion on a wasted process?

Mr. HERRINGTON. No, I think that is very much a misstatement.

Mr. KANJORSKI. Well, you said that they were producing gas at $6, when the market was producing $1.50. Somebody got conned; that's 4 times the cost.

Mr. HERRINGTON. Congress wanted someone to go out and take lignite coal, which is a low-grade or a high-grade dirt, and turn it into natural gas. And that was not a decision made by the private sector. And the Federal Government decided to guarantee the loan to do that project.

Mr. KANJORSKI. Did Congress decide to fund these offers?

Mr. HERRINGTON. Yes. The Synthetic Fuels Corp.

Mr. KANJORSKI. Did they make the decision of who should get the money, or did the Secretary of Energy make that decision?

Mr. HERRINGTON. It was under the Synthetic Fuels Corp. They also had several projects to go out into the oil shale in Colorado and turn that into oil.

Mr. KANJORSKI. Right. Who made the final decision to put that money out in the street?

Mr. HERRINGTON. Congress did.

Mr. KANJORSKI. Mr. Secretary, I have yet to sign a grant of U.S. money.

Mr. HERRINGTON. It wasn't a grant. They were loan guarantees.

Mr. KANJORSKI. The only thing I do is, I vote on appropriations. And we hand it to fellows like yourself, that take an oath of office and say they're going to administer the agency they're charged with. So when you tell me Congress did something, don't tell me that. Tell me that a Secretary of Energy or a President of the United States, in administering the will of Congress, did something. Now, who was the Secretary that authorized that project? What Presidential administration was it under?

Mr. HERRINGTON. Jimmy Carter.

Mr. KANJORSKI. OK, and who was the Secretary at that time?

Mr. HERRINGTON. Duncan, I suppose, I don't know. Schlesinger, I think it was.

Mr. KANJORSKI. And I understand the department was founded in 1979.

Mr. HERRINGTON. 1977.

Mr. KANJORSKI. OK, 1977. And by what time was the money put out on the street?

Mr. HERRINGTON. I think by late 1970's is when you got into the oil shale and the lignite programs, and the large-scale government guarantees.

Mr. KANJORSKI. When did you all take office? When did you take office?

Mr. HERRINGTON. It was 1980.

Mr. KANJORSKI. OK, 1980. Do you have auditors in your department, or do you have any inspectors that occasionally run out and see where our money is?

Mr. HERRINGTON. Yes, absolutely.

Mr. KANJORSKI. Did you make any determination that anybody out there, like DuPont Corp., may be wanting to produce gas at $6, when the market was $1.50?

Mr. HERRINGTON. Listen, we had 27 oversight committees in Congress, each one of us, that were watching what we did day after day.

Mr. KANJORSKI. And what happened? Nothing ever changed.

Mr. HERRINGTON. We had hearings after hearings after hearings. We made recommendations on many of these projects.

Mr. KANJORSKI. To who did you make them to?

Mr. HERRINGTON. To committees that had the oversight function.

Mr. KANJORSKI. And what committees of the Congress?

Mr. HERRINGTON. Well, we had the Dingell committee on the House side.

Mr. KANJORSKI. And who was on the Senate side?

Mr. HERRINGTON. We had Jim McClure during the first 2 years of the 1980's.

Mr. KANJORSKI. Jim McClure. What State was he from, or party?

Mr. HERRINGTON. Idaho.

Mr. KANJORSKI. What party was he from?

Mr. HERRINGTON. Republican for the first 2 years, and then he changed over to the Democrats.

Mr. KANJORSKI. Now, didn't the U.S. Senate—wasn't it under the Republican leadership from 1980 to 1986, Mr. Secretary?

Mr. HERRINGTON. 1986, no.

Mr. FOX. Mr. Chairman.

Mr. KANJORSKI. It wasn't?

Mr. HERRINGTON. 1986, it was, yes.

Mr. KANJORSKI. OK. Well then it would be highly unlikely that there was any chairman of a committee in the U.S. Senate that was a Democrat from 1980 to 1986, unless there's some charity over there that we don't receive on the House side.

Mr. HERRINGTON. Well, I would agree with that, but I think the House drove some of the things we did. I remember getting——

Mr. KANJORSKI. I see, we had a lame duck Republican Senate over there, that didn't have a voice, with a Republican President. They just couldn't stand up and say, aw, shucks, you guys are too strong; you're wrestling us to the ground.

Mr. FOX. Mr. Chairman.

Mr. HERRINGTON. Well, we had 13 loan guarantees and the alcohol fuels that were all bankrupt.

Mr. KANJORSKI. Whatever——

Mr. FOX. Mr. Chairman, time expired 3 minutes ago.

Mr. KANJORSKI. I have to leave, Mr. Chairman, because I have another appointment.

Mr. HERRINGTON. We had 13 alcohol loan guarantee programs that were all pushed by certain Democratic congressmen from the Midwest, to take corn and turn it into alcohol fuels; they were all bankrupt. Agriculture Department had more of them. These were not done by the Department.

Mr. KANJORSKI. Doesn't ADM run an alcohol program?

Mr. HERRINGTON. Again, please?

Mr. KANJORSKI. Doesn't ADM run an alcohol program?

Mr. HERRINGTON. I have no knowledge of that.

Mr. FOX. Mr. Chairman.

Mr. HORN. We now yield to the other gentleman from Pennsylvania, Mr. Fox.

Mr. FOX. Thank you. I think I'd first like to say to these three gentlemen, I appreciate your coming today, because I don't think you're the problem. You're the ones that are trying to help us solve the problem. And the fact is that this is neither a Republican nor a Democratic issue. It's a question of saving the important parts of

the Department of Energy, and dismantling or transferring the parts that should best be served by other agencies.

And in that connection, I'd like to ask a non-political question that goes to the governmental side of it. What functions do you gentlemen feel that the Department of Energy should consider transferring to the private sector or to local government, if any? I think that Mr. Herrington had touched on that. If he would review that again, or if the Admiral would——

Mr. HERRINGTON. I had eight suggestions. As far as privatizing, certainly the naval petroleum reserve, the U.S. uranium activities, the five Power Marketing Administrations and the hydroelectric generating facilities. I think it is a good idea to make FERC an independent agency—pipeline regulation is very valuable, and no one else is doing it. I think certain parts of the laboratories should be privatized. I think that needs to be approached very carefully, but there are certainly certain functions there that need to go to the private sector or to universities.

And as far as the Energy Information Administration, I serve on a couple of boards, and that information is being gathered in the private sector. The big problem with the Energy Information Administration, the reason I asked to close it down was, they kept mandating employment floors—you can hire no less than 350 people in that department—year after year. It was terribly inefficient.

Mr. FOX. Admiral, did you want to add to it?

Mr. WATKINS. Yes. In my formal statement, Mr. Fox, I have identified, as the third step of a six-step process. I said, identify those other energy-related functions and manpower, which should probably be retained somewhere in the Federal Government—Interior, Transportation or other—for at least the remainder of this decade, until we have moved well away from today's fully regulated by FERC, by NRC, by EPA and State counterparts, the power generation industry.

And I would say that was more of a policy monitoring function, under Interior, as I discussed earlier. Then I talked about, in the fourth step, identify and place into other Federal agencies those functions and manpower which are best funded and supported by existing missions of other agencies. And what came to mind very clearly there is the transfer of the office of non-proliferation to the Department of Defense.

Non-proliferation can be well handled, in fact, is handled today, in actual practice, by the Secretary of Defense, Secretary of State, the National Security advisor. They need technical advice that would come from the weapons laboratories. And then I say, fifth, identify administrative and budgetary legal staff, only those necessary where the receiving agency cannot handle the administrative support—only those should be transferred.

And then finally, I said, privatize and sell all other functions currently in existence, and their related resource support that clearly do not need the Federal Government, e.g., power marketing administration, naval petroleum reserve, strategic petroleum reserve, uranium enrichment facilities for civilian nuclear power plants, and at sometime in the future, privatize the civilian radioactive waste management. I would say after the research phase, it should go to the private sector.

So that's contained in my formal statement.

Mr. FOX. Thank you, Admiral. Did you want to add to that, Secretary Hodel?

Mr. HODEL. Just to say that I concur with what Secretaries Herrington and Watkins have said. And my written statement basically tracks what they've said. I think they're on the right course.

Mr. FOX. Very good. I want to just say to the chairman, I think this panel has given outstanding testimony, and it will be very instructive for Congress. I really appreciate it.

Mr. HORN. Thank you very much. I yield 5 minutes to the gentleman from Virginia, Mr. Davis.

Mr. DAVIS. Thank you, Mr. Chairman. I thank all of you for appearing here today. Let me ask a question—I'll start with Admiral Watkins, and solicit comments from anybody else who would like to comment. Since we're in a post-cold war era today, does it make sense to preserve civilian control of the nuclear weapons stockpile, as opposed to giving all nuclear responsibility to the Pentagon?

Mr. WATKINS. I think it does. I think it would be a mistake to give to Defense, and I'll tell you one reason why. You need some dedicated leader on the weapons complex that has no other function than to monitor the safety and reliability of the stockpile. You've got over 10,000 weapons; it's going to be there for a long time. We're not going to get to START II levels until sometime after the turn of the century, if we get there at all.

The Russian Parliament has not even validated that agreement yet. I'd be very cautious before I would take off the leadership of this important aspect of our defense component in this country and give it to some third-level functionary in the Department of Defense. We had an assistant secretary for atomic energy over there who I found extremely distasteful on the issue of safety, nuclear safety.

He wanted to declare sovereign immunity all the time, and to hell with the safety issue. That's what you're going to have when you mix it all up. Give somebody the accountability, through the Congress, to this committee, it's counterpart in the Senate, and to the authorization committees, and let them run it right. And don't mix them up yet. Now, when you get down to START II levels, say, 3,000 to 4,000 warheads, you might be in the category where, go ahead; transfer it to Defense.

I wouldn't do it today. I think there's too many issues that need personalized attention of competent leadership, technically and scientifically in this field. And you should not relegate it down. And I'm not stuck on the ideology, the Truman ideology, that you have to separate these things out in some ethereal sort of a concept. I believe it's a very reasonable concept to say, who is in charge of this thing. You can't expect Secretary Perry or his Deputy to spend all day worried about nothing but this nuclear business.

That's what I did in the Department of Energy; that's all I could do. We were being sued all over the country and losing, because we didn't have any decent data base on where we stood on radiological health. We had everything shut down for safety. We were operating a reactor unsafely at Savannah River. We had a mess on our hands at Hanford and all the other places, and nobody really digging into

it. And so we had to re-establish the procedures that we followed within the Navy's program, which has been flawless over 45 years.

And so, let's don't denigrate it. That's what's happening over there in that Department today. They're trying to cancel even the standards for handling nuclear weapon downsizing. It's unbelievable. Now, what's going on there? If I'd have pulled that trick with Dingell over here, he'd have been all over me with Dingell grants that you wouldn't believe.

Now, it seems to me that this oversight committee, starting out anew, with new leadership, thank God, would take a critical look at what's going on over there, and you would not accept the status quo as being safe. I don't believe it is. I think we're demoralizing our top nuclear people. They're getting out of the business. It's a very serious situation. I have received copies of the Nuclear Facility Safety Board's recommendations to the Secretary that have not been responded to.

These are big issues. They need to be aired before this committee. And let's get that solved first; then do what you want to with the rest of it. But this is critically important. And it should not go into Defense right now. Defense has all they can handle. They don't need this mess on their hands to deal with. So those are my—and a strong letter follows. [Laughter.]

Mr. DAVIS. We'll mark him down as undecided. Do either of the other two want to——

Mr. HERRINGTON. Mr. Davis, I find it hard to disagree with Admiral Watkins, because he's had a distinguished career in the Navy, and I've known him for many years. And I would put great weight on what he says. And I certainly agree with his remarks on the naval submarine program. That reactor program has been really tremendous. And, of course, the government gets a two-for, because the research that goes on there is very good.

I am not as worried about change of administration of the nuclear weapons program into an Under Secretary at the Defense Department. Certainly today we have civilian oversight at the Department of Energy, and it's a disaster. So what are you getting out of this current system as it is today? The GAO testified recently that there's $23 billion been spent on clean up, and there hasn't been any clean up take place since 1989.

So the program is not working today. And I don't subscribe to the theory of some conspiracy at the Defense Department that you'll have a bad person running it. They are very competent people. And I would like to see the right people running it. But the program today, Admiral Watkins is correct, you have people running this thing that don't care about it; and they don't want to see it be healthy and succeed.

So in this case, it depends on who the civilians are that are running it. I believe that you could set up an oversight function with competent civilians, and certainly there are some great people in the Energy Department that could undertake this job. And I would like to see it transferred.

Mr. HODEL. I'm fascinated, Mr. Davis, that the issue is whether the nuclear portion of the Department of Energy should be transferred to a separate agency, or should be transferred to Defense. I don't think we're arguing that it should remain in the present re-

lationship, for the reasons that have been suggested. In my written testimony, I recommend that it go to the Department of Defense. I listened to Admiral Watkins with great interest, because I think he makes some very interesting points.

But either way, it's apparent to me, that is a discreet function that needs to be properly handled by the U.S. Government and nobody else, because of the nature of what that is. And either way, it has nothing to do with a department called Energy, and really should not be under leadership in a department where the Secretary may be distracted by issues relating to energy supply for the country and research on magnetohydrodynamics and other such programs.

Mr. DAVIS. OK. Thank you. I think I'll stop here, and yield back.

Mr. HORN. I thank the gentleman. Should the function of the safety of nuclear weapons development be in a special office, where the reporting line is directly to the President? Should we quit worrying about Cabinet departments, and just put it in the executive office of the President?

Mr. HODEL. I can speculate an answer, Mr. Chairman, by saying that I'm not one who generally favors direct lines of reporting because, again, the President is distracted by numerous things of great immediate moment. And this is the kind of program which requires a long-term steady hand and highly qualified technical management. And therefore, it is part of the problem of placing the nuclear issues under a Secretary who has broader capacity.

I was intrigued by Secretary Watkins' comment about the need for a dedicated leader of the nuclear weapons program, or words to that effect. And I think he has a telling point. Wherever it's housed, the quality of that management is going to be determined by the chief administrator, whatever title he has, or she has, of that division. Whether it's Defense or a separate entity, whether it reports directly to the President or not, in the end it's going to be the quality and competence of that leader that makes the big difference. And how you assure that is a very difficult question.

Mr. HORN. Any other reactions to that? I mean, I think Admiral Watkins has been very eloquent on this problem. And no matter where you put it, if people aren't up to the qualifications needed and the commitment and the dedication, we can have trouble. But here is the most awesome responsibility, ultimately, a President of the United States has. And it seems to me, if I were President, I would want that person right there, working on those problems; either in terms of the potential effectiveness of nuclear weapons and their safety or in just the clean up problems, which know no bound in this country, in terms of the level of clean up by EPA, by the Department of Defense and the Department of Energy.

So it seems to me there's got to be focus on this. Hopefully it could be a de-politicized operation, where you recognize the people simply for their technical competence and know-how. And they might be transferred between administrations. At one time, most of the career staff of the old Bureau of the Budget was that way. They served all Presidents of the United States, regardless of party. They've become more politicized in the last two decades. But it seems to me we ought to think about those options. Yes, Admiral Watkins.

Mr. WATKINS. Mr. Chairman, my concern would not be the theoretical challenge to what you just said. But the practical challenge is that you're going to end up, I think, with the same situation we have today if you put it, let me say, directly in the White House. I believe that if you look back at the Atomic Energy Commission, set up with the Joint Committee on Atomic Energy here on the Hill, you had the very best relationship.

One, you had a national program of great significance. You had dedicated people here on the Hill who really understood it—the Jacksons and those people, got in the middle of it; Mel Price over here, they all knew what they were talking about. There was a, let me say, collegial interest in nuclear safety and nuclear efficiency in the management. So if you try to duplicate that concept in some way, such as having an agency that, you might say, dual reports to the President and the Congress; has a certain degree of independence; is funded in a way that cannot be down-funded because it fits into some other budgetary cycle in Defense that says, well, we've got to cut everybody 5 percent.

You can't cut 5 percent out of safety if, in fact, you've established a base of safety in accordance with international and national norms and standards. Those are fixed. It's almost like an entitlement at that point. You've got to do those things. So you don't want to put it into a budgetary process that gets downsized. You've got to have a certain degree of independence. And you've got to have respect on both the legislative and congressional branches.

In my opinion, that kind of a concept needs to be reinstated. Not as a commission, I don't mean to have the same kind of thing. But certainly that concept needs to be reviewed as probably the best model.

Mr. HORN. I notice two of you favor the nuclear safety problems being under a civilian official in the Department of Defense, at least as I heard the testimony from Mr. Herrington and Mr. Hodel. Do you have any worries about that at all, or do you think I shouldn't have any worries, as the chairman of this subcommittee?

Mr. HODEL. Mr. Chairman, I personally do not have worries about that. I state in my testimony that my representative to the committee that made the decision what to recommend to the President in terms of nuclear weapon production was a three star general. That was my civilian control, so to speak. I think, again, it comes back to the standards and the mission that's established. And frankly, I've found people in the Department of Defense to be very effective.

When they have a clear mission, they tend to carry it out, maybe perhaps better than we sometimes do in the civilian side. I'm not terribly concerned about that.

Mr. HORN. OK.

Mr. HERRINGTON. I would second that. I think the military, especially the Navy and Air Force, has done a fabulous job in nuclear safety so far, as it has gone since they possessed the weapons on a tactical basis. And certainly that record is to be admired. They can handle it.

Mr. HORN. I guess I worry about all the things the Secretary of Defense has to worry about. Obviously, this is a key matter, if it were in the Department of Defense.

Mr. WATKINS. Well, let me say this, Mr. Chairman, in amplification there. I don't have any feeling that the Department of Defense couldn't do it. I feel, practically, it's not going to be done with the same dedication that a specific individual, assigned that responsibility, would have, just because they don't have the time to do it. Admiral Rickover, when he set up the nuclear power program in the Navy maintained a dual reporting chain.

One to the Department of Energy—ERDA first, AEC then ERDA then Department of Energy—and the Department of Defense. I think that was absolutely essential to achieve the safety issues. We were accused, in Defense, of spending too much money in the Navy for the nuclear business—twice as much as we should spend—because of safety. That has paid off over the years. So it was Rickover's demand to be a part of the Atomic Energy Commission, as well as part of the Department of Defense, that made it work.

The naval nuclear propulsion program is the embryo for all safe operations of reactor plants worldwide. It came out of Three Mile Island. It was the nuclear program in the Navy that set the standards for the post-Three Mile Island private sector operation, called the Institute of Nuclear Power Operations (INPO), which was established by the Congress. Worldwide, the World Association of Nuclear Operators adopted the INPO standards set by the naval nuclear propulsion program.

And that would have never happened if it had started out in Defense. I'm just telling you that I saw the opposition to the cost of doing it right, and it was extreme. And it was only satisfied by Rickover's relationship with the Joint Committee on Atomic Energy. Now, it has worked; and I hate to see it broken down. I think the dual chain of reporting, particularly the naval nuclear propulsion program is vital to the continued success of nuclear safety.

I was on a cruise with Rickover in 1962 on a new construction submarine. It was after midnight; he called me up to his apartment and screamed at me. He said, Watkins, we're going to have an accident in the private sector, because they're cutting costs on safety, in 20 years. Seventeen years later, Three Mile Island took place. Now, we don't need to repeat those lessons. Let's get on with the nuclear safety issue. Stick it where you want to, including Defense. But if you're going to put it in Defense, then in the law there must be very clear restrictions on anybody getting into that person's knickers on budget and on dealing with safety. It should come from that person. If you need to put it in there for efficiencies of scale, fine. I don't think it needs to be there. I don't think you gain anything by putting another burden on the Secretary of Defense. I mean, he's already taken the position, don't give the waste to me; and don't give the tritium development to me.

And so, I don't think the Secretary of Defense is sitting there, yearning to get the Department of Energy's junk.

Mr. HORN. I think you make a very pertinent point. I can assure you this subcommittee will follow up on that. As a young man in this city, 30, 35 years ago, I never missed Admiral Rickover's testimony before Mr. Hollifield's subcommittee and full committee of this particular committee. I don't know if America generates one of that kinetic energy and genes every generation. We'll have to have a national search, I suspect, to find one. He was a rare breed, and

he got the mission accomplished with great effectiveness and efficiency.

Let me yield now, let's see, the ranking member, OK, let me get into a number of subjects before we round out this panel. One thing was that when we reviewed a number of the private sector remediation projects, they seem to cost 32 percent less and take 18 percent to 50 percent less time to complete than the time taken by the Department of Energy for equivalent projects.

We wonder, why does the Department of Energy's remediation efforts cost more, take longer than comparable private sector efforts? Are we missing something here? Do you have any feel for that from your own experiences?

Mr. HODEL. I have some feel for it, Mr. Chairman, and that's what it is. I don't have documentation of this, but I believe that one of the factors is that when the government—any government agency—seeks to do something that is highly sensitive or highly politicized, as is any kind of clean up, particularly nuclear clean up, that there is so much concern about doing it in such a way that nobody can ever go back and be critical of you.

You spend enormous sums of money and time in extra efforts in studies so that you can be sure you haven't done something that can be subsequently attacked or challenged. I've talked with people in the private sector who do consulting to the government. And they tell me that it's necessary for them to add a significant percentage to their bids to the government, because they know they're going to be spending so much extra time in paperwork and in discussions with the department, whatever department it is; and it's certainly true with Energy.

And that's not to be critical of the Federal agencies. Frankly, it's a problem that we've created because of a lot of second guessing. So what it ends up being, in my view, is a situation where the government has a terribly difficult time being efficient in that process. It spends all its money on studies, and very little on clean up because it's afraid of the consequences of a clean up which isn't 100 percent perfect. And a $20,000 mistake in a $100 million program will be characterized by critics as a terrible waste of money.

Mr. HORN. Any other comments on that question?

Mr. HERRINGTON. And it is a terrible waste of money. I would adopt what Secretary Hodel said. I definitely think there is a tendency, in dealing with the Federal Government, to gold plate things. You add two aspects that you don't have in the private sector as much. One is the political aspect of getting into a political problem. And No. 2, obviously, is the press oversight is much more intense. And the public affairs aspect in any government project is much more intense.

So I think that is one of the reasons it gets more expensive. Nobody wants to screw it up, and nobody wants to make a mistake.

Mr. HORN. Admiral Watkins.

Mr. WATKINS. I'd like to suggest this subcommittee review the recommendations of a recent report, commissioned by the Senate Committee on Energy and Natural Resources, to evaluate just the environmental clean up of the Hanford Reservation alone. Hanford now receives one-quarter of the $6 billion the DOE spends on overall environmental restoration. The author of the report States that

the Hanford clean up is "floundering in a legal and regulatory morass."

"Regulatory requirements," according to the author, "are unworkable, disjunctive, lack scientific and technical merit, undermine any sense of accountability for taxpayer dollars, and most importantly, are having an overall negative effect on worker and public health and safety." He contends that the Congress has largely created this confusing framework, which has given DOE impossible standards to meet in a number of environmental laws.

These laws impose, either through the actual statute or implementing regulations, deadlines not technically feasible, and criminal penalties for not reaching unreachable goals. Other than that, we're doing a great job. So we've got to get serious about these various levels. Now, 20 years ago, a thing like ALARA, which is as low as reasonably attainable, levels for radioactivity were OK. Today, we're 10–9 or 10–12 beyond that than we were 20 years ago.

So today, if I put a piece of uranium in the asparagus out at Hanford, asparagus futures drop; everybody gets upset. But the next day, which is not printed in the press, you'd have to consume 5,000 metric tons per person per year of that asparagus to achieve the equivalent—and over 50 years—to achieve the equivalent of one ski trip to Aspen. Now, that's the kind of nonsense that goes on. And when you give EPA the regulatory authority, under old rule, or rules that don't even exist, such as mixed waste, which is the big egregious problem out there, there isn't any standard; there isn't any law.

The Waste Policy Act doesn't conclude it. So unless Congress can come and help out, DOE can't solve this cost problem. We're cleaning up to a level we don't know what it means. Clean up to what level? To 10–23? You're now down to Avogadro's number per atom per mole. I mean, come on. So we've got to stop the nonsense and get serious about the proposals that are before this Congress now on risk assessment—legitimate health risk assessment.

And when we do that, and take the position that Admiral Rickover took years ago, long before environmentalism was popular, in the 1950's, he said, we're not going to put into the environment more than nature has. That's a totally different standard than ALARA or the other rules that now pertain in the regulatory business. So Congress again has a role to play here.

We've not been able to get these changed over the years. We weren't able—getting back to the Democratic Member's comment earlier—we weren't able to open the Arctic National Wildlife Refuge. We weren't able to inspire the States to allow the outer continental shelf to be exploited for gas. So we're going to not only import oil in the future, we're going to start importing liquid natural gas for the same silly reason.

And the reasons are flawed, if you take it on from an environmental point of view. There's less oil spill if we get our own oil from ANWAR and from the OCS than we'll ever do on shipping. And so these are the kinds of nonsensical things that are driving a lot of this question about the Department of Energy. But I think this new leadership on the Hill has a chance to rectify some of these things, and get a good base, and stop spending all the taxpayers' money on nonsense.

Mr. HORN. We thank you. Did you have a comment, Mr. Herrington?

Mr. HERRINGTON. I wanted to supplement the answer that I gave to the Congressman. He caught me off guard on who spent the money—did the Congress spend it or did the executive branch—on Great Plains? Great Plains was one of the five fast-track plants mandated by the 1978 act, which created the Synthetic Fuels Corp. The act required DOE to fund these projects, even though the Synthetic Fuels Corp. was not in existence.

Now, they concluded that the Great Plains project was uneconomic; brought that information back to Congress. And despite this information, Congress, by law, insisted that the money be spent, and in particular, the chairman of the energy commission.

Mr. HORN. And may I say, that response does not come as a surprise, since Congress is often a good part of the problem. And whether purification rags will exist on us by the end of this session, we're not sure. But at least if we give the President the line item veto, there's somebody at the other end of the avenue that also could strike some of that nonsense. Except, often, the nonsense is done by one's friends. That creates a problem.

I thank the panel. We could listen to all three of you all day. You've given some immensely helpful testimony. I think it's probably the best we've had here. And it's pertinent and to the point, and you've established a few new avenues that we need to take a very careful look at. And we will, and we'd like your continued help. The staff might well be sending you some questions.

And if you have the time, we'd appreciate your succinct comments on them. Thanks so much for coming. The next panel will come forward. Mr. Brewer and Ms. Fitzpatrick. If you would raise your right hands.

[Witnesses sworn.]

Mr. HORN. If we might, let us start with Shelby Brewer, the former Under Secretary of Energy, 1981 to 1984; now chairman of the ABB Combustion Engineering Nuclear Power. And as you know the rules, we put your full statement in the record, have a 5 minute summary, and then we'll do the same with Ms. Fitzpatrick, and then we'll throw it open to questions.

STATEMENT OF SHELBY T. BREWER, FORMER UNDER SECRETARY OF ENERGY (1981–1984); AND DONNA R. FITZPATRICK, FORMER UNDER SECRETARY OF ENERGY (1989–1990)

Mr. BREWER. Thank you, Mr. Chairman. I will be very brief. As Henry the VIII said to his wives, I will not keep you long. Your review of the Department of Energy is very timely. Since the Department was created in 1977, in a crisis energy atmosphere of gas lines and other fuel shortages, that condition, that circumstance, has changed drastically. We no longer have these energy shortages, due largely to the deregulation policies in the 1980's.

The other, and more overriding, reason for reviewing the Department's functionality is the epochal drive by the executive and the new Congress to reduce the budget deficit. For these two reasons, we have compelling reasons to review whether or not the Department is performing well in what it does. And I think in this review,

Mr. Chairman, you should look at the experience of U.S. industry over the past 15 years. We have faced very volatile markets. We have had to downsize, adjust very rapidly; face market realities very squarely.

We've had to work turnarounds overnight in order to survive. And those companies or institutions which could not do so, which could not think outside the box, simply perished. We had to become market driven. Now, what is the DOE's market? What external population of customers voluntarily are willing to pay for what the department does? That's a very key issue. It's an abstract one, and it's one that's hard to make a determination on. The fact is, the Department's market is largely the Department of Energy itself and its contractor constituencies.

And this syndrome has been protected over the years by congressional oversight and overlapping oversight jurisdictions within Congress, a multiplicity of appropriations bills, a multiplicity of congressional committee oversight functions. DOE was created in 1977 in an environment of energy emergency. It inherited the national security function from predecessor agencies. Now, 18 years later, the energy posture has improved. And the end of the cold war and disarmament treaties have reduced defense production requirements.

So the Department of Energy, given those facts, why then hasn't the DOE spending been reduced? The answer is that new missions and programs keep getting invented internally and attached to trendy new things enunciated by the Department. If you look at the fiscal year 96 budget request by the Department, you find not an energy department, but an environmental management department, a basic sciences department, an education department, a biological and medical research department.

Energy production, energy research and development and demonstration only accounts for a little over 10 percent of the total budget request, by my reading. I'd like to turn now to one of the new missions that the department has taken up, and that is the clean up of nuclear weapons research and development and productionsites. It has grown in a very short period of time—several years—to $6 billion per year. And it's headed toward a total lifecycle cost of who knows what.

The first estimates that came out during the Bush administration were, I believe, $50 billion to $80 billion. And then they turned to $500 billion to $800 billion. And some estimates placed the total environmental management costs as high as several trillion—numbers which are comparable to the current national debt. And now suddenly, the administration has pulled it back to a few hundred billion. Now, the variability of these costs undermines the credibility of any of these figures.

And we don't know what we're buying; and we don't know how much it's going to cost; and we don't know why we're doing what we're doing. There's been no risk cost benefit underpinning for this program, no quantified standards based on how clean is clean enough. We're spending money building buildings to house clean up processes which have not yet been invented or determined. I will close there, Mr. Chairman. I see the yellow light is on, and I've kept you too long.

[The prepared statement of Mr. Brewer follows:]

PREPARED STATEMENT OF SHELBY T. BREWER, FORMER UNDER SECRETARY OF ENERGY (1981–1984)

Thank you for asking me to participate in this review of the U.S. Department of Energy.

My testimony today reflects my own individual perspective, not that of my company, ABB-Combustion Engineering.

NEED FOR US DEPARTMENT OF ENERGY REVIEW

There are two compelling reasons for conducting such a review now:

- first, and foremost, is the epochal drive by this Congress and the Executive to reduce the rate of increase of the national debt, and to ultimately bite into the debt itself; and
- second, because the nation's energy and national security circumstances have changed dramatically since the Department was established in 1978, it is time to review the mission and performance of the Energy Department. Even without the budget issue, a review of the Department's mission and performance would be in order.

APPLICATION OF PRIVATE SECTOR TURNAROUND EXPERIENCE

Your deliberations can be enhanced by the experience of U.S. industry in the 1980's and the 1990's, and I urge you to seek out this experience. The business environment has been (and is) extremely volatile: rapidly changing markets, changing both qualitatively and quantitatively; shifts from "sellers' markets" to "buyers' markets"; more competitive markets, often over-supplied; competition emerging suddenly from unexpected sources and events; a business environment where trite, tired old cliches and mind sets are no longer relevant. We learned to adjust rapidly, to face market realities squarely, and to work turnarounds overnight. Fundamental assumptions were challenged, and sinecured sacred cows were pitched out the window, in favor of survival. Those companies and structures which could not think clearly, which could not change rapidly, simply perished.

The current issues of public-sponsored debt and government functional relevance and efficiency are analogous to the issues U.S. industry faced down in the 1980's and continues to face down. The government must submit itself to the same crucible tests that are a way of life in the private sector. It all comes down to cost and relevance. Why are we spending X to achieve Y? Is Y an important deliverable or function? Is there a better way to achieve Y? Can functions of the government be market-driven?

The U.S. Department of Energy needs the same attitudinal and operational adjustment that U.S. industry has adopted over the past fifteen years.

GENEALOGY OF THE US DEPARTMENT OF ENERGY

When the Department was established in 1978, the country was reeling from a series of energy emergencies.[1] Cabinet expansion has been a characteristic response of the U.S. Government under both parties—when there is an national calamity, there is a knee-jerk tendency to create a Cabinet level bureaucracy to deal with it, centralize the problem, apply damage control, and get the calamity off-stage. The trouble with this kind of emergency response is that long after the immediate crisis subsides[2], the bureaucracy thus established endures, grows, and continues to consume national fiscal resources.

This has been the case with the Department of Energy. Because of the deregulation policies initiated during the Reagan Presidency, we no longer have gas lines and other crippling fuel shortages, but the Department continues to reassert its relevance, redefine and gerrymander its mission and programs, with or without enabling and authorizing legislation.

This is human nature; we see it every day in the private sector. First, there is a market downturn in a market line; second comes a period of denial by the operating business unit—"the market is just in recess", or "the competition will stumble." Third comes the period of intense self-flagellation, confession. Management during this period will confess to even imaginary faults, if only the dreaded score-cards of the customers and the stockholders can be kept at bay to buy some time, and save

[1] It has been argued that these emergencies resulted from U.S. Government intrusion into the energy marketplace in the 1960's.

[2] Often by itself, rather than from the application of government attention.

them from the rack for just one more day. During this period, managers line up to confess and to slander their peers . . . "I am guilty because I saw it coming but did not speak up, but Ralph did not even see it coming, or he tried to sweep it under the rug." Finally, if this is a well managed company, a leader is appointed to reconfigure, work a turnaround, merge, or divest. The U.S. Department of Energy is somewhere between the denial phase and the confessional phase. It is reasserting its relevance, but doing so timidly, and it is rumored to be up for sale.

Even from the outset, the Department's mission was a confused clutter of developmental, energy-economic regulatory, national security, and operational responsibilities and programs inherited from preceding agencies—US ERDA, US AEC, FEA, FPC, etc. The genealogy is difficult to track through legislation. For example, the "national security" function came into U.S. Department of Energy via ERDA, nee US AEC, and through the idea of separation of powers (military and civilian) inherent in the 1954 Atomic Energy Act. When the Department was created, a lot of activity was cobbled together in the heat of the moment; and little if anything from its inheritance was reduced, shaken down, consolidated, and made cost-effective at the time.

CHANGED ENERGY AND NATIONAL SECURITY CIRCUMSTANCES

So much for the Department's confused birth and its cluttered inheritance. Let us turn now to changed energy and national security circumstances since 1978.

1. Energy. First, the Reagan Administration's free-market policies have worked fairly well. We no longer have chronic supply disruptions—the emergencies that spawned the creation of the Department in the first place. Oil deregulation in 1981 led to an oil supply surplus, which broke the OPEC price stranglehold. Deregulation of natural gas has lead to significant increases in natural gas availability. Conservation and energy efficiency improvements, whether they were of Federal origin or not, have had a beneficial impact on U.S. energy posture. The institutional structure of the energy sector has come to be more relevant, than technological research, development, and demonstration.

The emergency impetus (1970's) for the Energy Department has gone away, but the Department is still here.

2. National Security. The end of the cold war, the nuclear disarmament treaties negotiated by the Reagan and Bush Administrations have reduced U.S. nuclear weapons stockpile requirements. The nuclear weapons development, production, and maintenance functions of the Energy Department have significantly changed qualitatively and quantitatively.

There is currently no production (or production capability) of tritium (T), plutonium (Pu) and highly enriched uranium (HEU) for nuclear warheads.

Attention has shifted to:

- means of disposition of excess inventories of HEU and Pu resulting from the disarmament treaties;
- environmental remediation of the Cold War nuclear weapons development and production facilities; and
- means of tritium production, should fresh tritium be needed sometime in the future.[3]

THE U.S. DEPARTMENT OF ENERGY TODAY

Mission and Program Clutter:

The Energy Department is a clutter of energy and non-energy related functions and activities which do not add up to a coherent national mission. That is because in large measure there is not a definable, quantitative, external "market pull", for what the Department does, i.e. a definable customer population willing to pay for product or services delivered. The Department's objectives are established largely by the Department itself and its contractors and laboratories.

In a classical business context, management of a company has two key constituencies: customers (the market); and investors (stockholders). Without trying to draw too fine of an abstract point on this analogy, one might consider Congress as the Energy Department's investors, but we lose it when we try to define the Energy Department's market. In those few cases where a customer population or market can be defined, the customers are enormously dissatisfied with the Department's performance. An example is the floundering execution of the spent nuclear fuel program, financed by the U.S. nuclear utilities through user fees.

[3] Unlike uranium and plutonium, tritium has a relatively short half-life, and must be replenished in the weapons stockpile.

Part of the incoherent clutter results from the multiplicity of Congressional committees exercising oversight responsibilities for elements of the Department. This is an old problem. Let me give you a very narrow example. Prior to 1975, all atomic energy matters were overseen by a joint House and Senate committee—the Joint Committee on Atomic Energy (JCAE). Roughly once per year, the executive branch nuclear czar would testify exhaustively before this committee, receive his/her Congressional marching orders, then be left alone to execute until the following year.[4] The JCAE was disbanded in 1975, and Congressional oversight for nuclear energy was scattered to the winds—over a number of committees. When I was Assistant Secretary of Energy 1981-1984, with responsibility for nuclear energy, the number of Congressional committees claiming oversight was somewhere between eighteen and twenty-six. As with Cabinet level department proliferation, the proliferation of Congressional committees exercising oversight has contributed to the clutter of missions, objectives, goals, programs, activities, functions, etc. in the Department of Energy.

Over the years the Department's mission has been redefined internally, bottoms-up, not tops-down and not by market forces, as would be necessary for a private sector entity to survive. There are numerous large and small contractor flywheels attaching themselves to vague enunciations of Department policy and mission. The number of these internal constituencies is large, diverse, unmanageable, and expensive. Examining the Department's budget request for FY 1996, you find not an energy department, but an environmental management agency, a basic science agency, an education agency, and an agency clinging to a national security function. The energy related budget is roughly only 12% of the total budget request.

National security is one of those things that everyone agrees is a proper responsibility of the federal government. The Energy Department plays an important role in national security. It should be regarded as a supplier to the Defense Department (the customer). The Defense Department, not the Energy Department, establishes the specifications and quantities of products it wishes delivered by the Energy Department. These obvious distinctions in roles should not become blurred. The national security function of the Energy Department is a case of a sheep in wolf's clothing: while its national security responsibilities do not conform to the Department's prevailing values, the budget and political clout that these functions project constitute a platform the Department cannot resist clinging onto.

Given that the US energy posture and national security circumstance have improved dramatically as noted earlier, one would expect that the mission and budget of the Department should be shrinking, but they are not. Bureaucratic momentum and the appetites of Department contractors and laboratories tend to keep new missions being invented and taxpayers' money being spent. The FY 1996 request was several hundred million dollars above the FY 95 actual budget.

Environmental Management (Weapons Site Cleanup):

One of these new missions is the environmental clean-up of nuclear weapons production facilities, the Environmental Management Program (EM). It has grown over the past few years to a request of about $6 billion for FY 96. While environmental remediation of these facilities is an important national goal, the program must be conducted intelligently and within national means. The fact that the Department has been so vague in mapping the tasks and costs to their end points undermines the Department's credibility. Several years ago the cost to complete was estimated at about $50-80 billion. Later the cost was placed in the range of $500 billion to $800 billion. Given the lack of clarity and cost/benefit validity in the Department's commitments, the cost could reach as high as several trillion—a number comparable to the current national debt. Recently, the Department, under pressure from Congress, pulled the number back to a few hundred billion. The variability of the total cost to complete this important program is alarming. We may be signing up for an unknown, open ended mortgage.

The phenomenal growth of this program is another example of the Department's contractors and laboratories feasting at the federal trough, essentially unmanaged by the Department. This new (weapons program environmental remediation) market comes just as the weapons production function is in decline. Furthermore, this new market is more enriching than the production market. At Hanford, the Department is spending over 0.5 billion dollars per year on monitoring the waste tanks, and planning for their ultimate disposition, and it will be years before actual physical

[4] In corporate life we call these events "strategic planning and operations reviews". They are designed to determine whether long-range plans remain sound, and how well management is executing near-term.

disposition begins. Employment at Hanford has more than doubled since actual production operations were terminated there.

Lacking in the EM program is any noticeable priority system based on a risk/cost/benefit methodology, e.g. for each site, how much public health risk/cost is abated by the application of X dollars? At some point in the expenditures for a particular site, the incremental benefits do not warrant incremental costs. Meaningful quantitative standards are vague or are lacking.

Intelligent sequencing of clean-up technology development, "bricks and mortar" building programs, and commitments to states and localities is lacking. At one site, a building is being constructed to house a clean-up processing line whose technology is yet to be identified or developed. At the same site, another building is being constructed to house research and development effort to establish the technology. The cart is before the horse. It appears that the EM program constituencies are settling in comfortably for a long stay.

Civilian Nuclear Spent Fuel Program:

While new missions and spending programs are being invented, the Department does not appear to be able to execute its existing statutory responsibilities. A case in point is the program to develop and deploy a national disposition system for used fuel from nuclear power reactors, pursuant to the 1982 Act, as amended.

The 1982 Act (a) shifted the financial burden from the taxpayers to the consumers of nuclear-generated electricity, (b) provided a date certain (1998) for the US Government to accept title to spent fuel, (c) provided for both ultimate permanent disposition in a geological repository, and for interim storage (Monitored Retrievable Storage Facility) should the geological repository be delayed, and (d) mandated a process and schedule for federal and state decision-making (e.g. choice of sites), and public involvement. This legislation was, admittedly, cumbersome and difficult to execute, especially in the details of the process mechanics for reaching basically political decisions. Many compromises had to be made to gain passage in 1982.

For a number of reasons, the execution of this legislation to date has been a failure. The Bush and Clinton Administrations have asserted that the 1998 acceptance date is unrealistic, and merely a commitment made by the Reagan Administration, rather than an obligation of the incumbents. The fact is that the 1998 date was and is a statutory commitment enacted by Congress and signed by the President. In spite of a lot of heavy political weight-lifting by Congress since 1982 to ease the Energy Department's burden, the program is still a failure. The Bush Administration said that difficulties were simply too great and that a spent fuel acceptance date of 2010 (rather than 1998) might be achievable.

More egregious than the schedule slippage is the fiduciary management of the program. Notwithstanding the fact that the funding is user-based, not taxpayer-based, Executive and Congressional approvals are required to spend from collections. Collections have exceeded outlays, and the difference is scored against the annual deficit. That is like telling a customer the turbine he paid me for will not be delivered for another 15 years, or maybe never, and actually I do not think he needs a turbine in the first place. Maybe he would like to have a valve instead. Meanwhile I have got his money (advanced payment), and I am spending it on something else. In business, where common sense applies, this conduct would land you certainly on the street if not in jail. But in matters federal there is apparently some sense of sovereign immunity from common sense equity considerations.

Production and Disposition of Nuclear Weapons Materials:

After spending several billion dollars in reactor safety upgrades on the Savannah River reactors, the reactors were essentially mothballed in 1992. As a practical matter, these reactors are not intended to operate again. The nation has no current capability to generate tritium, an isotope with a relatively short half-life, and which must be replenished in the nuclear weapons arsenal. At some point in the future, a new source of tritium will have to be implemented, depending on the Defense Department's projected requirements. This source has not been identified.

At the same time, the disarmament treaties have resulted in large inventories of excess plutonium and highly enriched uranium. Here the issue is how to dispose of the excess inventory, because plutonium and uranium have very long half-lives, and requirements for new sources are not projected. Plutonium and uranium have energy values if converted into fuel for nuclear power reactors. They are an energy asset rather than a waste.

In the Energy Department, where these issues have been under study for years, the prevailing sentiment appears to be to treat plutonium disposition and the tritium production as two separate federal, on-budget projects. Also, the Department has raised concerns about the example set if the United States uses plutonium fuel

in a fission power reactor. In my mind this concern is unfounded, for three reasons: (a) the world did not follow the U.S. example set in the late 1970's when reprocessing was banned; (b) the weapons plutonium to useful energy solution does not involve reprocessing (separation of plutonium from other isotopes); and (c) the optics of "swords to plowshares" are positive rather than negative, because fissioning the plutonium is an irreversible process (against rearmament using the excess plutonium), and because it shows that the U.S. is not wasteful.

By far the least cost solution for the taxpayer is to combine the missions of plutonium disposition and tritium production standby capability into a single project—fission reactor(s) which can generate and sell electricity to offset costs. In addition, further savings would result if the project were privatized, that is, financed by a consortia which would sell electricity and provide a service to the U.S. Government.

Energy Research, Development, and Demonstration:

A traditional role of the U.S. government is to conduct or participate in research development, and demonstration (RD&D) on energy systems whose programmatic costs, durations, and risks are beyond the private sector's reach. The appropriate role of the government in the sequential process between laboratory research on basic phenomenology and commercialization has been extensively debated over the years. Inordinate government spending for technologies at or near the commercialization stage can distort the market. Also, government stewardship can lead to price subsidies at or after commercialization. On the other hand, concentrating government effort only on laboratory phenomenology will assure that these programs will never leave the laboratory stage. This is a very abstract subject which will be debated by scholars for several more generations.

The fact is that a very small portion of the Department's budget (FY 96 request) can truly be labeled energy RD&D. Please refer to the Appendix at page 103-113 of the Energy Department's publication titled Budget Highlights—FY 1996 Congressional Budget Request (February 1995). You have to look hard for it, but the energy RD&D budget request can be found in two Appropriation Bill requests: Energy and Water Development Appropriations and Energy and Related Agencies Appropriations. Imbedded in these budget appropriation requests are vague line items like Environmental Safety and Health ($166 million), Biological and Environmental Research ($431 million), Environmental Restoration and Waste Management ($712 million), University & Science Education ($55 million), Technical Information Management Program ($17 million), Multi-Program Energy Laboratories ($51 million), Laboratory Technology Transfer ($58 million), and so on. The environmental activity expenditures cited above are in addition to the $6 billion request cited for environmental remediation of the weapons material production sites. If you strip out from the Department's requests for these two Appropriation Bills the activities which appear to be actually energy RD&D related, the total is about $1.6 billion, not the roughly $4 billion advertised in the Department's visual presentation materials. That is about 9% of the Department's total budget request for FY 96. Therefore it is a legitimate question to ask whether or not the Energy Department is an energy agency or an environmental, education, basic science agency, or what. Again, we see clutter, featherbedding, and mislabeling.

Congress, too, is not blameless for this condition. The historic complexity and confusion inherent in the Appropriations and Authorization Committee structure and the Appropriation Bills architecture, when combined with the Energy Department's clutter and ambiguity, guarantees that understanding and common sense will be lost.

WHAT SHOULD BE DONE

Dismantlement? Not Now.:

A natural tendency when faced with a failed organization is to dismantle and reorganize, to move organizational boxes around on paper. Congress appears to be in this mood now with respect to the Energy Department.

I believe that this would be a mistake, at least for now. If the Department is dismantled, prior to programmatic terminations and reforms, with pieces and parts sent off to other agencies, then the opportunity for substantial budget savings will be lost. The scope and money will disappear into other agencies, never to be found, and programs will continue doing the same things at the same cost.

Because fiscal restraint is a principal objective, it is best to keep the issues in one place for now, where they can be seen and dealt with substantively, programmatically, and quickly. Reorganization can come later.

Quantum versus Incremental Changes:

Incremental cutbacks here and there in Energy and other departments will not go very far toward balancing the federal budget. The budgets will simply spring back later.

To make a measurable difference, some things will simply not get done, or get done on the scale envisioned now, and this will simply have to be accepted. A lot of sacred cows, some of them perhaps quite meritorious, will follow the bathwater out the window. Some missions, objectives, and the spending programs that underlie them will have to be terminated outright, or fundamentally reshaped.

Efficiency improvements, delayering, overhead consolidation, while commendable, will not be enough.

Front End Loading versus "Hockey-Stick" Savings:

Reductions, reforms, and program terminations should be front-end loaded to be credible and effective. Performance improvements promised for later years ("hockey sticks") rarely occur in business, and never in government.

In this regard, the Department's FY 96 request is several hundred million dollars above its actual FY 95 budget, while a on-the-come savings of $14.1 Billion is promised for the period FY 1996-2002. Of this figure only $8.4 billion comes from program savings; the rest is from selling assets over the next five years.[5] This is neither a credible nor an aggressive target. It amounts to only about 13% of current annual levels ($18 billion), or less if one contemplates Energy Department program baseline growth over the next six years.

Going simply after obvious "low-hanging fruit", I believe a doable target for FY 1996 is $5 billion (about 28% reduction), and a FY 1996-2002 savings of about $44 billion. If redundancies are reduced in environmental, basic science activities in other federal departments and laboratories, roughly another $15 billion could be saved FY 1996-2002. The total of say $60 billion savings over FY 96-2002 if annualized ($ 10 billion per year), is only about 5% of the annual budget deficit of $200 billion per year, but it is a start and can be done without forfeiting American leadership in energy technology, basic science, and environmental leadership.

Arrest the Department's Internal Market Syndrome (Contractor and Laboratory Constituencies):

As I have noted, most of the missions and objectives of the Department are self-generated, and by self-generated I include the contractors whose principal market is the Department. Congress does not help when state delegations keep the money flowing to their states and districts, regardless of merit.

The Department of Energy does not have an objective arms-length external market to determine its relevance and performance.

Some workable system of incentives and penalties must be designed to deal with the Department and its internal constituencies. Excessive spending is rewarded, while thrift and efficiency are not. Budgets become automatic. One mechanism would be to privatize as much of the Department's functions as possible, rather than rely on extensions of the Government—the M&O contractors and national laboratories.

Re-Plan and Re-Baseline Weapons Sites EM Program:

The largest single budget (and growth) item in Energy Department's plans is the EM program, and attention should be given immediately to containing its out-year spending commitments.

A first step would be to freeze FY 1996 spending at the current contractual obligation level, to buy time while the program is brought under control. This could save as much as $3 billion in FY 1996.

Second, invoke a priority system that will allocate the most effort and resources to sites with the largest, most pernicious, and most immediate hazards to human health and safety. Apply common-sense risk/cost/benefit tools.

Third, inject some discipline into the process of negotiating Energy Department agreements with states and localities to avoid open-ended, financially ruinous commitments.

Fourth, seek the most innovative and cost-effective cleanup technology. Avoid large "bricks and mortar" building programs in advance of determining technology to be employed.

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[5] It would be interesting to know what the book value of those assets is, so that one could determine the magnitude of the government's investment write-off.

Fifth, build in a system of contractor incentives and penalties which encourage contractors to execute work in a cost-effective and timely manner, rather than maximize spending and perpetuating programs.

Mr. Chairman, this concludes my testimony. Thank you for the opportunity to present my thoughts on this important subject.

Mr. HORN. Well, we'll get back and get a chance to get all your thinking out on the table. Donna Fitzpatrick was the former Under Secretary of Energy during the period 1989–1990. She's now president of the Radian Services Co. Ms. Fitzpatrick.

Ms. FITZPATRICK. Thank you, Mr. Chairman. I do have a written statement for the record, and I'd like to make a few comments now. We have heard already a great deal about the DOE's activities, and I won't repeat any of those. Certainly, the DOE is a complex organization. It has a proud history. It and its predecessors have made tremendous contributions to this country's security. But it has also been burdened with programs which have outlived whatever usefulness they may once have had. And I agree that it's time to take a serious look at the DOE's mission and it's structure.

I meant to say something about the clean up, but I can't top what has already been said by Mr. Brewer and Secretary Watkins, in particular. I think they are exactly right in their criticisms of that program. Beyond that, what activities should be retained in the department? On the non-weapons side, I think that the Federal Government should support basic science, subject to reasonable peer review and competition.

Applied research should be funded to develop technologies for the government's own use, particularly defense and other national security needs, not to benefit particular companies or industries or to manage economic sectors. Allocation of risk capital should be left to the private sector. It is enough for the government to support research for its own use, and to cooperate with industry investments in those areas which are precompetitive and related to and supportive of government missions.

This is good for government researchers, and it's also good for the economy. These comments really have to do with the question, what should be done with the national laboratories? Because the continued management of the national laboratories is a vital consideration in any reorganization of the department. The national laboratories should not be viewed as task oriented job shops.

They are, in fact, a unique national asset, and each has its own history, mission and capabilities in both physical facilities and expertise, which are not often available elsewhere in the country, or even the world. The laboratories have nurtured a spirit of research which ranges beyond solving immediate practical problems to explore fundamental sciences. The laboratories have been valuable sources of information and analysis on such issues as global warming, ozone depletion and environmental impacts of various energy technologies.

Unfortunately, their disciplined scientific approach to these issues has not always, or even often, won the political day. But the Congress and the Nation should know that the resource is there, and it should be used. The laboratories success is due precisely to the fact that they can maintain a variety of skills and facilities, which are symbiotic and synergistic. They nurture one another, and they provide enhanced productivity and creativity.

While the laboratories can no doubt benefit from thoughtful trimming, dismantling them or letting them suffer a slow death from neglect would be a tragedy. In particular, the three laboratories which are responsible for nuclear weapons design, development and maintenance have competencies which are unique and irreplaceable. Many of the skills necessary for the weapons program are now finding applications in industry. And this should be encouraged, but without losing sight of the laboratories basic mission, which is fundamentally the nuclear weapons program and basic science.

Of course, abolishing the department does not abolish any of the real tasks assigned to it. We still have to maintain our nuclear weapons stockpile. The department and some of the laboratories have an important role in nuclear non-proliferation efforts. The permanent storage of high level waste from civilian power reactors will remain a Federal responsibility. We must also continue and improve the clean up of the weapons production complex.

The national laboratories and suitable programs in basic and applied research must be managed. Some of these programs have not been immune to politically motivated projects, and others are due for re-evaluation. No doubt, other programs should be transferred or abolished. And I would endorse the views already expressed by the former Secretaries on which programs should be shut down. In particular, all loan guarantees, grant programs and demonstration projects should be shut down.

We've had excellent testimony on nuclear weapons safety already. But let's be clear about who actually is responsible for and carries out the weapons safety and maintenance work. It is the national laboratories. And those are not government employees; those are contractor employees. The head of Sandia National Laboratories, for example, is personally responsible for certifying the safety of every nuclear weapon in the Nation's stockpile. That is why I am so—I want to emphasize the importance of maintaining these institutions.

It's vital for the health of the weapons laboratories that they continue their participation in non-weapons programs, because the reduced weapons program will not be sufficient to support the skills and the facilities or attract the talent needed for the weapons program itself. Without a multi-program approach, the weapons laboratories and the Nation would lose the benefits of symbiosis and synergy which we now enjoy.

Therefore, the nuclear weapons program and civilian research should not be separated in different agencies. It is also essential that the laboratories clearly belong to and remain the responsibility of a full-fledged executive agency. Problems of micromanagement can and should be addressed. And I would think a severe reduction in force would help immensely. But without an agency sponsor, the laboratories would compete destructively; they would drift; and they would eventually starve.

I hope that the Congress will amend the personnel rules so that Federal managers will be free to do what many know they should do. After the missions and the activities of the agency are determined, then select the bare minimum of the best available employees to carry out the mission, regardless of accumulated seniority.

Let everyone else go. It means that people will have to take responsibility for real decisions. But that is what they have to do in the world of the taxpayers.

I might also add that the new agency, whether it's Cabinet or sub-Cabinet, should not have to report to 27 different congressional committees. One set for nuclear and one set for other energy issues is quite enough. The department and its predecessor agencies have a record of accomplishments, which has been vital to our national security and contributed to our prosperity. Not everything has been done flawlessly, and there are lessons to be learned from both policy and operational errors.

But the goal today should be to identify and nourish the assets we still need, and free them to do their jobs. Thank you, Mr. Chairman.

[The prepared statement of Ms. Fitzpatrick follows:]

PREPARED STATEMENT OF DONNA R. FITZPATRICK, FORMER UNDER SECRETARY OF ENERGY

Mr. Chairman and members of the subcommittee, my name is Donna R. Fitzpatrick. From 1983 to 1990, I served in various capacities at the U.S. Department of Energy, including assistant secretary for conservation and renewable energy, assistant secretary for management and administration, under secretary, and acting secretary. I am now president of Radiance Services Company, a technology development and licensing firm in Bethesda, Maryland, and I am an outside director on the boards of Sandia Corporation, which is the Lockheed Martin subsidiary for the management of Sandia National Laboratories, and Stone & Webster, Inc., an international engineering and construction firm. Both Lockheed Martin and Stone & Webster are contractors with the Department of Energy. My testimony is mine and does not necessarily represent the views of any of these organizations.

I appreciate the opportunity to testify before this subcommittee about the future of the Department of Energy (DOE). The agency is a complex organization with a proud history in the development, manufacture, and maintenance of nuclear weapons, basic science research, and energy technology development. It has also been burdened with some programs which may have outlived their usefulness. I agree with those who say that it is time to take a serious look at the DOE's mission and structure.

To assist the subcommittee in making a detailed analysis of DOE, I would like to offer some thoughts which are applicable to the federal government in general and DOE in particular. My testimony will address five topics: principles for determining what activities the federal government should undertake; the role of the Congress in determining federal activities; some serious management problems in the federal civil service; the kind of scientific research which should be supported by the federal government; and the future of the national laboratories. I will then suggest a framework for restructuring the Department. This is not the forum for detailed answers, which I do not have. There is a vigorous discussion on these matters and I doubt that all the right answers have yet emerged. It would be a mistake to take precipitous action before allowing this discussion to come to some conclusions.

WHAT ACTIVITIES ARE PROPER FOR THE FEDERAL GOVERNMENT?

We are finally coming to the realization that the federal government cannot do everything that anyone wants it to do. But the limitation on government should not be determined by what it can do, but by what it should do. This country was founded on the principle that the powers of government were limited so as to preserve the greatest possible liberties for the people. It follows that what the people can do for themselves, either individually or in voluntary associations, should not be done by the government. If something must be done by government, it should be done by the lowest level which can do it efficiently and effectively, keeping the activity as close as possible to the people. The federal government is the actor of last resort, because the federal government necessarily acts through coercion, including taxation, and easily falls under influences which are remote from the common interests of the people and largely invisible to them. I will try to apply these principles in discussing what research activities are appropriate for federal funding.

WHAT IS THE ROLE OF CONGRESS IN DETERMINING FEDERAL ACTIVITIES?

Within the limits of the Constitution, the answer is "Everything." The executive agencies can do little not directed, at least implicitly, and funded by the Congress. The courts can only apply the laws written by Congress or, thanks to ambiguities left in legislation, drive their own interpretive trucks through the law. It is not an accident that Article One of the Constitution concerns the legislative power of the United States. We have three branches in our government, each with its own powers and responsibilities, but they are not equal. The Congress is far more powerful than the other two, because it controls the purse, it directs the Executive, and it can even limit the jurisdiction of the Judiciary.

The Congress has gotten into the habit of leaving a good deal of its legislative authority to the regulatory powers of executive agencies and the interpretative whims of the courts. It complains about the results, but does not always seem to realize where the problem starts. For example, the Department of Energy is now spending billions of dollars per year to clean up the nuclear weapons production complex. Congress, like everyone else, is shocked by the projected costs of $200 billion or more. What do we get for all this treasure? Is it necessary to safeguard public safety? The answer is certainly no. The cleanup is being driven by standards imposed in federal legislation which have little to do with actual risk to the public. They really have more to do with the current and changing state of chemical detection technology. It is hardly too simple to say that the law and regulations require that if we can detect it, we have to get rid of it, even if there is no practical risk to the public. This is Congress's doing and only Congress can cure it.

It is heartening to see that today's Congress is willing to examine what has become of its handiwork, begin to remedy some problems, and perhaps even resist the never-ending temptation to do just a little something nice for someone.

TWO WAYS TO IMPROVE MANAGEMENT OF FEDERAL AGENCIES

Federal agencies are being asked to improve their performance and efficiency and to undertake significant downsizing. Under present personnel rules in the civil service, these are to some extent mutually exclusive goals. Personnel rules make it extremely difficult and time-consuming for a federal manager to remove a poorly performing employee, especially if the employee is willing to utilize all available grievance procedures. The manager must weigh the risk that the employee will do just that before even embarking on a serious disciplinary action.

The difficulty of dealing effectively with the less than satisfactory worker encourages another common problem. When downsizing comes, it is easiest to allow it to happen as much as possible by attrition and allowing early outs: paying people to choose to leave. Unfortunately, this is expensive and encourages the best people to leave, because they have the most opportunities in the private sector. The method is all too familiar and amounts to an abdication of responsibility for effective management, but it is sometimes the most attractive alternative left to a federal manager. I hope that the Congress will correct these difficulties so that federal managers will be free to do what many know they should do: after the mission and activities of the agency are determined, select the bare minimum of the best available employees to carry out the mission, regardless of accumulated seniority. Let everyone else go. It means that people will have to take responsibility for real decisions, but that is what they have to do in the world of the taxpayers.

WHAT KIND OF RESEARCH SHOULD THE FEDERAL GOVERNMENT SUPPORT?

We are in the midst of a lively discussion concerning the level of federal support for scientific research and what kinds of research are appropriate for federal funding. This is a perennial issue with particular importance today.

I think that the federal government should support basic science subject to reasonable peer review and competition. There are many projects which cannot be funded by the private sector but are beneficial for our understanding of ourselves and the world we live in. The Hubble space telescope, certain facilities such as light sources and particle accelerators, and the human genome project are examples. I think that applied research should be funded to develop technologies for the government's own use, particularly defense and other national security needs, not to benefit particular companies or industries or to manage economic sectors. Of course, the government uses almost everything the ordinary consumer uses, so this guideline could easily dissolve into meaninglessness. Also, many technologies developed for particular governmental applications have become commercial successes, such as computers and jet airplanes, but that was not why they were supported. Indeed, there was an almost complete failure to foresee the impact of computers.

The government does not have an especially good record of choosing successful technologies for private sector use. It could be argued that many private investments also fail, but at least they are freely made by people who choose to take the risk. Allocation of risk capital should be left to the private sector. It is enough for the government to support research for its own use and to cooperate with industry investments in those areas which are precompetitive and related to and supportive of government missions. This is good for the government researchers and good for the economy.

WHAT SHOULD BE DONE WITH THE NATIONAL LABORATORIES?

One of the DOE's most important functions is the management of the national laboratories which grew out of the Manhattan Project, the post-WWII development of nuclear weapons, the development of nuclear reactors for naval propulsion and civilian power production, and the need for nationally funded research in the basic sciences. The continued management of the national laboratories is a vital consideration in any reorganization of the Department of Energy.

The national laboratories should not be viewed as task-oriented job shops. They are, in fact, a unique national asset and each has its own history, mission, and capabilities in both physical facilities and expertise which are often not available elsewhere in the country or even the world. The laboratories have nurtured a spirit of research which ranges beyond immediate practical problems to explore fundamental science in physics, chemistry, and biology. The defense program and energy technology programs have supported development of innovative materials, electronics, systems design, computational modeling, data acquisition and diagnostics, and many other areas which were pioneered in the laboratories and proved very useful to American industry. Similarly, the Department and the laboratories have been valuable sources of information and analysis on such issues as global warming, ozone depletion, environmental impacts of various energy technologies, and radon risks. Unfortunately, their disciplined scientific approach to these issues has not always, or even often, won the political day, but the Congress and the nation should know that the resource is there and should be used.

The fruits of this research have had invaluable practical benefits, much of which was completely unforeseeable. The laboratories' success is due precisely to the fact that they can maintain a variety of skills and facilities which are symbiotic and synergistic: they nurture one another and provide enhanced productivity and creativity. While the laboratories can no doubt benefit from some thoughtful trimming, dismantling them or letting them suffer slow death from neglect would be a tragedy.

The three laboratories responsible for nuclear weapons design, development, and maintenance have competencies which are unique and irreplaceable. Their focus is shifting from weapons design, testing, and assembly to the disassembly of many weapons, the long-term maintenance of the remaining stockpile, and many activities contributing to nonproliferation efforts. Many of the skills necessary for the weapons program are now finding applications in industry and this should be encouraged without losing sight of the laboratories' basic mission.

The national laboratories represent a huge investment which has already been made. If they are allowed to deteriorate or become merely job shops for either government or private interests, an invaluable resource will have been irretrievably lost and a national investment squandered. The nation should remain committed to maintaining both their spirit and their capabilities. Perhaps this can best be done by maintaining ownership of the laboratories in an independent subcabinet agency.

WHAT SHOULD BE DONE WITH THE DEPARTMENT OF ENERGY?

This brings me to the specific subject of this hearing: what to do with the Department of Energy. Abolishing the DOE does not abolish any of the real tasks assigned to it. We still have to maintain our nuclear weapons stockpile. (I would like to refer the subcommittee to testimony being given today by Al Narath, Director of Sandia National Laboratories, before the House Committee on National Security, Subcommittee on Military Procurement, for an explanation of what this entails.) The Department and some of the laboratories have an important role in nuclear nonproliferation efforts. The permanent storage of high level waste from civilian power reactors will remain a federal responsibility. We must also continue, and improve, the cleanup of the weapons production complex. The national laboratories and suitable programs in basic and applied research must be managed. Some of these programs have not been immune to politically motivated projects and others are due for reevaluation.

No doubt other programs should be transferred or abolished. The surviving oil price control enforcement actions should go to the Department of Justice for wrap-

up and any functions of the Energy Information Administration which are useful and not available elsewhere could be transferred. All loan guarantee and grant programs and demonstration projects should be shut down. The power marketing administrations should be privatized. The Federal Energy Regulatory Commission is not really part of the Department and can be left as an independent agency.

The essential and continuing functions of the Department might well be managed by an independent, subcabinet agency. It is vital for the health of the weapons laboratories that they continue their participation in non-weapons programs because the reduced weapons program will not be sufficient to support the skills and facilities or attract the talent needed for the weapons program itself. Without a multiprogram approach, the weapons laboratories and the nation would lose the benefits of symbiosis and synergy which they now enjoy. Therefore, the nuclear weapons program and civilian research should not be separated in different agencies. It is also essential that the laboratories clearly belong to and remain the responsibility of a full-fledged executive agency. Problems of micromanagement can and should be addressed (a severe reduction in force would help immensely), but without an agency sponsor, the laboratories would compete destructively, drift, and starve.

The new agency, whether cabinet or subcabinet, should report to the bare minimum of Congressional committees and subcommittees, not the two dozen or more which have historically held jurisdiction. The armed services committees and defense appropriation subcommittees should retain jurisdiction of the nuclear weapons program and there should be one set of authorization committees and appropriation subcommittees for the other functions.

The Department of Energy and its predecessors have a proud history of accomplishments which have been vital to our national security and contributed to our prosperity. Not everything has been done flawlessly and there are lessons to be learned from both policy and operational errors, but the goal today should be to identify and nourish the assets we still need and free them to fulfill their potential.

Mr. HORN. Thank you, Ms. Fitzpatrick. Let me just ask one question on something you just said, then I'll yield to the ranking minority member. You noted that we should amend the personnel rules so we could have more flexibility as to who you keep and retain and who you don't. Were you thinking primarily of the Department of Energy as a whole, or were you thinking of the national laboratories?

Ms. FITZPATRICK. No, the national laboratories are contractors, and the employees there are private sector employees of the contractors. So they don't—although they actually have a lot of the same personnel rules. I am concerned, in particular, about the Department of Energy Federal employees, and especially the seniority rules. But the extent that they also extend to the—are sometimes imposed de facto on the contractors, I would take a look at those as well.

Mr. HORN. Yes, because I knew the contractors should have the rules, if they have any, either independent with that laboratory or the University of California rules, in the case of two of the laboratories.

Ms. FITZPATRICK. Right.

Mr. HORN. And I just wondered if you found some of those a problem.

Ms. FITZPATRICK. Well, yes. Some of the contractors and some of the university contractors, as well, have created or adopted rules either because there were Federal rules, or simply because of the exigencies and influences in the labor force. And I find, generally, the seniority rules are counterproductive. And I also am opposed to doing downsizing by attrition or by buy-outs. I think that tends to chase out the people who are the best, because they have the best opportunities on the outside.

Mr. HORN. Having gone through three buy-outs as a university president, I agree with you. And I don't know why we can't target those buy-outs at the discretion of the institution involved, and just say for the good of the service.

Ms. FITZPATRICK. Well, I think buy-outs are expensive. I don't know why we can't simply explain what the mission is, identify the people who are best at doing it, and tell the others, sorry, we don't have a job for you here.

Mr. HORN. On the laboratories, we've heard the word, privatization, used a lot.

Ms. FITZPATRICK. Yes.

Mr. HORN. Based on your role as Under Secretary, do you think there's much hope for privatization of any of the national laboratories, without affecting their primary mission, which is the nuclear safety issue?

Ms. FITZPATRICK. There are three laboratories which are concerned with nuclear weapons design and maintenance. The other national laboratories, each of them really has a, for the most part, some function and facility which I think is properly funded and supported by the Federal Government. And those facilities, such as particle accelerators, test reactors, and that kind of thing, are really very difficult to move. You just can't consolidate them in a few sites.

However, I think in the non-weapons laboratories, there are opportunities for some privatization and for some expansion of user facilities. I would simply be very careful about declaring them all up for grabs, and I would be very prudent about losing some things which are really unique national assets.

Mr. HORN. Well, I take it, on the nuclear safety aspect, you don't see any privatization possibility there.

Ms. FITZPATRICK. No.

Mr. HORN. That's basically a national responsibility.

Ms. FITZPATRICK. Exactly, yes.

Mr. HORN. But there are some research, and I know they've been trying to get more private sector research, in terms of Livermore and Los Alamos and others.

Ms. FITZPATRICK. Yes.

Mr. HORN. The ranking member, the distinguished Representative from New York, Mrs. Maloney.

Mrs. MALONEY. Thank you, Mr. Chairman. Many of you have praised, in your testimony, the work done by the national labs. And there seems to be some disagreement over the privatization. Where would you have these labs go, if we abolish the Department of Energy? Where would you have them go, either one of you?

Mr. BREWER. Well, if the laboratories' work and the mission is not relevant, then they should go away. The first question to be answered is what the market will bear; what are the products of the laboratories; who is willing to pay for those tasks and those products; and place the thing in the crucible of the marketplace. And if there is no market, then I'm sorry. Except for the weapons functions at Los Alamos, Sandia, and Livermore, let the marketplace decide.

The weapons functions clearly are a national responsibility, and should be taxpayer funded. But that's about as far as I'm willing to take——

Mrs. MALONEY. And where would you have the labs that relate to weapons functions? Would you move them to Department of Defense? Where would you have these labs located, if we abolish the Department of Energy?

Mr. BREWER. Well, the Department of Defense, as we've heard this morning from two of the three witnesses, is an adequate place, as long as it's managed in a competent manner. Admiral Watkins has opposed that idea. It's not, in my mind, important, at all, where functions and functionalities go. What is important is what is done, and the specifics and costs of individual programs. I think DOD is perfectly good and sound place to put the weapons functions.

Now, when you do that, you cross over the line of separation of powers, under the Atomic Energy Act. We can't have the military—the civilian versus military control of nuclear weapons. That idea was prevalent not only in the weapons program, but in the naval nuclear propulsion program, dual responsibility. I think we're long past the stage of needing to debate those abstractions. I think these functions can, and perhaps should, go to the Defense Department.

Mrs. MALONEY. The Times today had a ringing endorsement on the National Institute of Health, and what their research had given to the country, and arguing that the cut from $35 billion to $25 billion was too extreme, and one of the reasons we're such a great country is our research. And I assume you could say the same thing about our defense and about our labs. And there is a possibility, and I'd like to ask Ms. Fitzpatrick, that the market privatization may not work.

Private market may not support the research of these labs that have helped make us such a great country in so many areas. And you may say it's not important where a lab is established, but where it moves in government, its existence may be threatened in the future if it's not set in a way that it will be protected within the budget. So it is a legitimate question to try to figure out, if something is deemed to be vital to the country, which a number of you have testified, that it be placed in a way that it is not threatened in the future.

And I'd like to hear Ms. Fitzpatrick's comments on the future of the labs. I have a feeling that it would be very hard to get private sector support for the research, as it is in health. It's a high risk gamble, and yet it is what has given us the edge in so many ways. And I'd like your comments on that and your thoughts.

Ms. FITZPATRICK. I would agree that there is—as I've already stated, there are kinds of research which are appropriate for the Federal Government to support. And I think what's important is to clearly define the mission of the agency, whichever agency ends up responsible for the national laboratories. My preference would be that it not be the Department of Defense, for many of the reasons that Secretary Watkins has already mentioned; but also because of this point I'm making about the importance of the weapons labora-

tories maintaining interests and capabilities beyond simply maintaining nuclear weapons.

And the reason is that I think it will not be possible to attract the kind of people that you want if they're simply in a program where they're maintaining a stockpile. As challenging, and I think, poorly understood, as many of the issues are, in maintaining the stockpile, they have, in order to do that, developed many skills and facilities that are also applicable in commercial products, and that industry can come to and learn from them about.

So I would like to see, I think, a sub-Cabinet independent agency, charged with the nuclear weapons stockpile maintenance; also with the basic science which now goes on at the national laboratories, including the non-weapons labs, and with the capability of maintaining a multi-program approach, which supports and is compatible with nuclear weapons safety.

Mrs. MALONEY. Secretary Brewer, I was impressed, or really, shocked somewhat with your comments on the mismanagement of the clean up program; that they are literally building buildings for supplies that don't exist for future clean up. It sounds horrific. But my time is about to expire, and so I wanted to ask one question. Why don't we approach the problem of the clean up by, at the beginning of the contract with private industry, having built into the contract the cost of the clean up?

You stated that a lot of times we don't—of course, this would not be retroactive. But for future weapons developments or whatever that have toxic waste residue, have it built into the contract that they not only will give us the estimate of how much it will cost, but the estimate of how much it will cost to clean it up. Last year, as Chairman Horn knows, we had a hearing on the cost of clean up. And it is billions, multi-billions of dollars.

It's estimated $50 billion this year, and then on the next site, it's another $150 billion. And you were more or less, in your testimony, saying that there is little thought on this clean up process. Why don't we have a very Republican idea—the private sector part of the partnership of planning not only what it is we're going to build, but what we're going to clean up. And I think it would be, I think, good management to build into our Energy contracts or Defense contracts not only the cost of producing the product, but cleaning up the environmental damage.

And I'd like your comments on that, and how we could better handle the clean up program. What you outlined is a disaster, in your testimony.

Mr. BREWER. I agree, Mrs. Maloney, that these factors should be built into future contracts with the weapons production program; that it should be cradle to grave. We should know what the cost is going to be. We should hold contractors accountable. Now, what we've been talking about in this new program is the clean up of activities that have occurred over the last 50 years.

Mrs. MALONEY. Yet they continue every year, the problems, as I understand it.

Mr. BREWER. Most of the production of weapons material has ceased. And a lot of the weapons research has been terminated because of the disarmament treaties. But one of the problems that we have today, or the department has today, are that it's a spending

fly wheel. There is no incentive for M&O contractors to not spend more money. Their fee is based on the total volume of money going into these various sites.

And so they just kind of settle in for a good old round at the Federal trough. And we need to privatize those tasks, not leave them to what is essentially an extension of the Federal Government—the laboratories and the M&O contractors. And that, the department has not faced up to. The problems at Hanford are just outrageous.

Mrs. MALONEY. Why could not government have certain guidelines of how it's supposed to be cleaned up? I don't see that privatization is always the answer.

Mr. BREWER. They're driving without an idea of what it is that they want to do. They don't have standards of clean up. You heard Admiral Watkins this morning give the asparagus story. I've heard that several times, and it's very pungent. It's a moving target. The contracts that are being negotiated now between the DOE and the States are totally an open-ended commitment by the U.S. Federal Government, which could cost trillions—not billions, but trillions; numbers of the order of magnitude of the current national debt.

Mr. HORN. Let me ask you right there, now, first I'd like you to define, for the average reader of this transcript, M&O contractors.

Mr. BREWER. Management and operating contractors.

Mr. HORN. All right. Now, how are those set up? Were they on a competitive bid basis?

Mr. BREWER. Yes, sir. Each site and laboratory generally is free competed. Savannah River, Hanford, and companies like Martin Marietta, Westinghouse, bid on those contracts.

Mr. HORN. Did we just give them open-ended percent from the beginning, without any fixed cost ceiling? And if so, was that congressionally mandated, or was that a regulation the Department did under some vague euphemism passed by Congress?

Mr. BREWER. The latter. Part of the problem, Mr. Horn, with this clutter that we see in the Department of Energy—the lack of mission and the lack of objectives and definable, quantifiable tasks that we must have in running a private business—is the clutter of the multiplicity of congressional committees that oversee. And each authorizing committee has a set of interests, different from others. And then the appropriations structure is very confusing. If you look at the budget, a layman cannot understand it.

Mr. HORN. Neither can some of the experts. I yield 5 minutes to the gentleman from Virginia, Mr. Davis.

Mr. DAVIS. I'm sorry, Mr. Chairman, I don't want to break your train of thought.

Mr. HORN. We'll get back to it.

Mr. DAVIS. Just a couple of questions. Let me ask Ms. Fitzpatrick, in terms of the labs, they are undergoing a change in terms of the type of tasking they're getting. Do we need the same number of labs? Could we use the same level? I think there's certainly a need to keep them going, but do you need the same level that you've had before?

Ms. FITZPATRICK. Well, that's the problem. It might be hard to eliminate any laboratory. I think you can reduce what goes on at many of them, especially if you reduce a lot of the applied research that's now being funded by the departments. But as I mentioned,

each one of them has facilities that are hard to move; they're not easily consolidated. You cannot move a particle accelerator, for example, from Brookhaven to Tennessee.

So it's hard to say that any laboratory should be simply abolished. Perhaps laboratories could be privatized—some of them put under a university consortium or something like that. They have user facilities which are not going to be funded by anybody else, and have proved to be very useful to industry and have also been very useful to our basic understanding of science, how the world works. And I think that those are valuable and appropriate for Federal funding, with industry participation.

So I can't tell you any particular laboratory that I think that we should simply abolish.

Mr. DAVIS. Let me ask this, the Interior Department has jurisdiction over the Bureau of Land Management, which handles oil and gas mineral leasing; the Minerals Management Service, which supervises the exploration and development of gas, oil and other minerals in the outer continental shelf; the U.S. Geological Survey, which is headquartered in my district, which conducts research and provides basic scientific data concerning natural hazards and environmental issues, as well as the water, land and resources of the country.

Does the Department of Energy or the Department of Interior have greater influence upon energy supply and production?

Ms. FITZPATRICK. Oh, I think the Department of Interior does.

Mr. DAVIS. Yes, you both would agree with that. And if that's so, then you think, under the circumstances, that it makes more sense to consider whether the transfer of the energy functions should go to Interior?

Ms. FITZPATRICK. Well, the energy functions are varied in the department. For the Power Marketing Administrations, I would tend to privatize those. I would sell them to their customers, basically. So those don't have to go to the Interior Department. The oil and gas reserves that are owned by the Department of Energy, the naval petroleum reserves, for example, I also think could be privatized. Those are very well-defined, localized assets.

The same with the strategic petroleum reserve. So I'm not so sure that anything, very much, really has to be transferred to the Department of Interior.

Mr. DAVIS. OK.

Mr. BREWER. I agree, Congressman. I think before you transfer anything or move boxes around on paper, that the Congress should define scope and cost. There's a tendency to reorganize every time there's a national emergency. We have the proliferation of another Cabinet department and 10 more congressional committees to oversee it. I think rather than—you should do things sequentially.

First of all, adjust the scope of the Department of Energy while it's all in one place and visible. And then, an only then, decide where the pieces and parts go. If you do it the other way around, the pieces and parts will be scattered to the wind, and you will never, ever, ever, find the money. I mean, it will disappear. The $18 billion will disappear; it will become $25 billion.

Mr. DAVIS. OK, thank you. I yield back.

Mr. HORN. Thank you very much. Let me pursue the clean up responsibilities. We've heard some say they ought to go to the Department of Defense. We've heard others say, as Secretary Perry says, I don't want the waste responsibilities. We all know that with surplus military bases all over the Nation, that no private party or even public entity in their right mind, collectively or individually, would ever want to establish some economic venture on these bases as long as they have problems of clean up.

Because they can see lawsuits flying right and left from a rather hungry tort bar, hopefully to make the ultimate killing and retire on the beach somewhere. So we face a major problem in how do you get focus on clean up. What are your suggestions as to what part of the clean up responsibility should be with the energy related agencies, as opposed to the environmental protection related agencies, as opposed to the agency that's disposing of the particular responsibility?

With the bases, it's the Department of Defense. With the Hanford and other reactors, it would be other nuclear weapons facilities, it would be the Department of Energy; and so on, around the government. How do you see us getting some sense out of this area so we can get the job done, and not just spend more money on legal fees, which is what we can easily say about the Superfund. Most of the money has gone to litigation, and less of the money has gone to clean up.

Ms. FITZPATRICK. Well, Mr. Horn, as a former practicing attorney, I wish I could tell you there is an answer to the litigation problem. And we will always have lawyers, and I think the best thing that the Congress can do is to carefully review the legislation that exists, the statutes that exist, under which these clean ups are being done.

As Mr. Brewer mentioned, a lot of them are being done under agreements with the States which are, in effect, consent decrees that the department had to—the Federal Government, through the department—had to accept because the States were only insisting that Federal statutes be met. And those Federal statutes either have unreasonable standards in them, which require you, in effect, to remove anything that you can find, whether it poses a risk to anyone or not; or they fail to actually set standards.

And then it's a free-for-all, or a regulatory agency has stepped in to fill the gap with something that is really unreasonable. So I think the Congress has to go back to things like RICRA and CIRCLA, and look at the environmental standards which have been imposed; correct those to be reasonable and risk-based, and not simply declarations that if uranium is in a field, no matter how little and how many tons of dirt the child would have to eat in order to be harmed by it, it has to go.

We really are working under unreasonable standards. I'm not sure what can be done about these what are really legal contracts and consent decrees that the department is now operating under. I don't know that there's a legal mechanism for undoing those. They are contracts between the States and the Federal Government. It's a very difficult knot. But I think it needs serious examination, because, as we've already heard, it's a bleeding wound, and

actually doing nothing for the public—the taxpayer is paying for it and getting nothing back.

Mr. HORN. Mr. Brewer, do you want to comment on that?

Mr. BREWER. I think to answer the specific question you asked, where should the clean up program go? I think it should go wherever the production program goes. If that's the Department of Defense, so be it. Where it should not go, in my opinion, is the Environmental Protection Agency, which is a regulatory arm. And they, too, are doing research and development on clean up methodologies and so forth, entirely duplicative of what's going on in DOE and so forth.

I would separate it from EPA. I would zero out the EPA R&D programs, and move the clean up program, along with the weapons production function.

Ms. FITZPATRICK. I would second that, Mr. Chairman.

Mr. HORN. Very good. I yield to the ranking member, Ms. Maloney, 5 minutes.

Mrs. MALONEY. How much are we spending on clean up now?

Mr. BREWER. The department is spending—that's a good question. It takes a Philadelphia lawyer to understand this budget. But there's $6 billion being requested by the Department of Energy for weapons research production and activities for those sites at Hanford, Savannah River, et cetera. In addition to that, all throughout the budget here, even in the Energy R&D spreadsheet here, there is another billion or two on environmental activities. There's also medical—I'm sorry, biological research and development.

If you strip all of that away from the Energy R&D budget, the only Energy R&D that's getting done is about $1.6 billion, out of $18 billion. That should tell you something. But throughout this budget, to answer your question, there are environmental line entries, line items. The specific about requested by the budget for clean up and restoration of defense related sites is $6 billion.

Mrs. MALONEY. OK. If we were to follow your suggestion and privatize it, we would have a set amount of money that we were spending, a set goal, a guideline. Why can't we do that now, under the Federal Government, under the department with the trained personnel that we have? And second, in consent decrees, don't they have a limit on how much is to be spent with the decision? Or is it a total open-ended process?

Ms. FITZPATRICK. My understanding is that there are, I think, several dozen of these agreements between the States and the Department. My understanding is some of them, even most of them, are simply, you will achieve a certain standard. And it does not have a cost limitation on it. But those standards turn out to be either unreasonable or unachievable.

I think we're not talking about privatizing the clean up, we're saying——

Mrs. MALONEY. I believe Mr. Brewer was. Did you mention you thought it should be privatized?

Mr. BREWER. I think, rather than go the route of tasking the management and operating contractors with these tasks, we should have private industry come in with fixed price contracts to perform the clean up. Otherwise, it becomes another fly wheel. The work never gets done. We continue to build office buildings to house peo-

ple that are going to try to plan this program, rather than actually getting at it. That's what I mean.

Mrs. MALONEY. Going back to your original testimony, where you said the real goal is to save money and to reduce the deficit. Yet in 1980's, both the CBO and GAO indicated that abolishing the department would save only a few million dollars. And that's when President Reagan backed off of this policy decision.

Mr. BREWER. I'm sorry, I don't remember that.

Mrs. MALONEY. That was a written report that came out in the 1980's. What I think, Mr. Chairman, would be helpful is if we got a bottom line on exactly how much we'd save. Maybe we should ask the CBO to do another look at the Department of Energy, so that we know whether or not we will in fact be saving any money, since some of these services, some of these responsibilities, many of the former Secretaries have testified, they feel are vital.

Mr. HORN. Let's ask the majority and the minority staffs to work together and see if we can get an answer from both the Congressional Budget Office and the General Accounting Office, and any other hopeful spirits that might be around and have some substance to contribute to the answer.

Mrs. MALONEY. And Mr. Chairman, I think it would be helpful if we ask GAO to do a review on the clean up and why it is so mismanaged. What Mr. Brewer is saying is just, to me, almost a scandal; that it's just totally out of control, and building buildings to study what you're going to do in the future. And I feel that maybe we should have some independent body look at how we could better achieve clean up and manage taxpayers' dollars better.

Mr. HORN. I think it's a good suggestion. I read in the paper where $15 billion has been lost in the Pentagon, that nobody can seem to account for. I think it would be worthy if the General Accounting Office, which is supposed to be the arm of Congress to prevent such things, or at least find them, ahead of the press and the agency. I think it would be commendable if they could work on the point that the ranking member states, about the clean up costs and what's happened and what's being done. Yes, Mr. Brewer.

Mr. BREWER. Mr. Chairman, one of the things that I think can be done in this area is to seek out innovative technology by entrepreneurs, people who have developed technologies and own it. And in that regard, I would like, with your permission, to enter in the record, a paper written by Michael Dunn, who is such an entrepreneur, and who has had a pretty bad experience with the Department of Energy.

[The prepared statement of Mr. Dunn follows:]

PREPARED STATEMENT OF MICHAEL J. DUNN, PRESIDENT, SELECTIVE ENVIRONMENTAL TECHNOLOGIES, INC.

Mr. Chairman, members of the subcommittee, thank you for asking me to participate in this review of the Department of Energy. I appreciate the opportunity to provide input, and hope that my testimony today will benefit this subcommittee as it seeks to improve government operations.

I am president of a small entrepreneurial business that develops technology for waste treatment and environmental clean-up. My company has been in business since 1989. We have developed three technologies that treat soil and water contaminated with heavy metals, radionuclides and nitrates. We have extensive experience with the US government, in particular the Department of Energy, and my testimony will deal with several of our experiences, both frustrating and encouraging.

First, I would like to review the events of a procurement action at the Hanford site that began in 1993. Westinghouse Hanford Company (WHC) issued a Request for Proposals (RFP) for demonstration of technology to treat uranium and copper contaminated soil at the 300 Area of the Hanford site. The procurement action was to select two companies, based on lowest total cost to meet the specification requirements. The two companies would demonstrate their technologies and the company with the most effective demonstration could get a follow-on contract to treat 1,000,000 cubic yards of soil.

The specification required that the base technology be soil washing. Soil washing is a method to separate large soil particles from small soil particles. The reason soil washing was specified is that most of the contamination is captured on the surface of the soil particles. Since small particles have more surface area per pound of soil than large particles, most of the contamination is found on the small particles. By removing the small particles from the volume of soil, most of the contamination can be recovered. The specification required that as a minimum, 70% of the soil be returned as "clean" soil (i.e., 30% of the soil be removed as waste), with 80% desirable, and 90% considered excellent performance. The specification allowed the use of non-hazardous chemical treatment, if that would enhance overall performance. WHC specified that the waste disposal cost, for contaminated soil, was $8,000 per cubic yard of soil, and would be factored into the total evaluation.

My company teamed with Waste Management Environmental Services, Inc., (WMES) a subsidiary of WMX Technologies of Chicago, Illinois. We offered a combination of soil washing and Selentec's ACT*DE*CON℠ technology. The soil washing would be used to separate the soil by size fractions, and the ACT*DE*CON℠ would be used to chemically dissolve the uranium and copper from the small soil particles. With this approach, the small soil particles would be resumed as "clean" soil, and the only waste produced would be the chemical solutions used to dissolve the uranium and copper from the soil. This not only significantly reduced the waste volume from 10 to 20% of the soil treated to less than 1%, but also reduced the amount of uranium and copper resumed to the site, because we were treating a larger percentage of the soil than otherwise treated by soil washing alone. Based on the 1,000,000 cubic yards to be treated, and comparing the desired level of 80% "clean" soil for soil washing (i.e., 20% waste); and greater than 99% "clean" soil for ACT*DE*CON℠ (i.e., less than 1% waste), the difference in waste disposal costs for the technologies is $1.6 billion (for soil washing) vs. $80 million (for soil washing with ACT*DE*CON℠), or a net difference in waste disposal costs of $1.5 billion. Also, the 300 Area site contains a total of 5,300,000 cubic yards of contaminated soil. Projecting these cost differences to the total site clean-up results in a differential cost of more than $8 billion.

An affiliate of WHC (Scientific Ecology Group [SEG]) submitted a proposal for this contract, and WHC fumed over the bid evaluation to Battelle Pacific Northwest Laboratory (PNL) to avoid a potential conflict of interest. PNL selected Morrison-Knudsen and WMES as the two companies to perform the demonstrations. SEG and another small company protested the awards, claiming they did not understand that non-hazardous chemicals could be used in treatment. WHC responded to the protest stating that the specification was clear on the use of chemicals, but that it was in the government's best interest to cancel the procurement and rebid the work. WHC canceled the procurement, and because they could not issue a new contract fast enough to meet the testing milestones committed to with the state, WHC internalized the initial soil washing tests. Ultimately, WHC failed to meet the test milestone date, and was fined by the state. They also issued a new RFP which prohibited the use of non-hazardous chemicals in treatment.

WHC performed the initial soil washing tests using a test rig that they obtained from EPA. In the process of testing, they achieved just under 90% "clean" soil. They also created wastes that they were unable to process, and which were stored on-site over the Winter. In the Spring, they added chemicals to the waste in the tanks, and were able to treat the waste. Also, they ultimately issued a contract to Alternative Remedial Technologies, Inc. (ART) for a soil washing demonstration. ART performed the testing, but was required to use chemical treatment to obtain effective soil washing. They used a surfactant to help separate the small soil particles from the large soil particles. Performing soil washing without a surfactant is like trying to wash your laundry without soap. WHC should have known this, and ultimately selected the chemicals that could be used, not based on treatment effectiveness, but based on some other "unknown" criteria.

I have provided all of this information, and more to the GAO, and RuthAnn Hijazi of the San Francisco GAO office has confirmed the accuracy of all my statements.

As a taxpayer and company president, I find this situation nothing less than appalling. WHC has acted to increase the cost of this project by potentially as much

as $8 billion. Even with their testing reaching 90% efficiency, the cost increase in $4 billion. They are making decisions regarding the methodology for this project, and yet they have a clear conflict of interest. If more waste is generated, WHC processes that waste, and charges the Department of Energy (and therefore the taxpayers) for the work that they have decided to give themselves. I believe that this is a clear example where change is needed. I made numerous attempts to meet with the DOE Richland Office Manager, but on every occasion, his office refused to confirm a meeting.

With regard to government competing with the private sector, I have spoken with many individuals who have experienced competition from the National Laboratories or DOE site contractors. Although I have no direct experience of this with DOE, I can confirm that the government does use taxpayer dollars to compete with the private sector, am confident that it occurs within DOE as well as other agencies. As an example of government competition with the private sector that does involve my company, I have confirmed that NASA has used taxpayer money to develop a technology that is essentially identical to a technology that my company has patented. The technology selectively removes contamination from water, leaving non-hazardous minerals unaffected. At the time that NASA was developing this technology, Selentec was under contract to DOE to demonstrate the technology. Apparently, all the data and information developed by NASA is unavailable, since they can not commercialize the technology.

In a similar situation, I have been contacted by the Bureau of Mines (BOM) to obtain information about our ACT*DE*CON℠ patent. BOM has developed a technology that appears to be identical to ACT*DE*CON℠ and they contacted me to determine if there were sufficient differences between their technology and ACT*DE*CON℠, or if they could make changes to their technology, such that they could file their patent application without infringing on the ACT*DE*CON℠ patent. BOM was developing this technology while Selentec was under contract to the government to demonstrate its technology. As a small businessman investing private capital to develop technology and create jobs, I find it unthinkable that my own government is competing with my company. Again, I have no direct experience of this nature with DOE, but I am aware through others, that similar situations exist within DOE.

Finally, in my list of frustrating examples of government actions, I refer to the Hanford Tank operations. The Hanford Tanks are the single biggest clean-up effort in DOE. It has been estimated that the cost to treat the contents of the tanks will exceed $50 billion. This project is considered to be larger than the Apollo Space Mission. The tank project is currently managed by the site Maintenance and Operations contractor, WHC. WHC was selected for it capabilities in maintaining and operating equipment, not for its chemical process capabilities. This is evidenced by one of the criteria set by WHC regarding the treatment methods for the tanks.

There are 141 tanks, containing a variety of chemical constituents. The tanks are not all the same chemically, in fact, there are some very significant differences in tank chemistry. The tanks contain about 1% high level waste material, and about 99% low level waste material, if they can be separated. Since high level waste disposal costs much more than low level waste disposal, significant savings can be achieved if the two wastes can be separated. WHC has set as a criteria that the chemical treatment process to be used to treat the tank wastes must be a SINGLE process, it must treat ALL tank wastes, and it must dissolve ONLY the high level waste. Most everyone that I have discussed these criteria with share the same conclusion. The criteria are unrealistic and will yield an never-ending research program. My company has performed testing on Hanford sludge materials. Our contract has recently been modified to transfer the focus of testing from Hanford sludges to Oak Ridge and Savannah River Site sludges, because there is more likelihood of success (i.e., implementation) at these other sites..

In closing, I would like to end on a positive note. I want to speak briefly to the interaction that my company has had with the Office of Technology Development (OTD), within the Environmental Management Office of the DOE. It is my experience that OTD has worked with small business to find innovative technologies and capabilities that exist in the private sector and that can be applied to the DOE environmental clean-up mission. My company has several patented technologies that OTD has selected for demonstration projects on the basis that, if successful, these technologies will allow certain clean-ups to be performed faster, better and cheaper. OTD has worked with small business to protect their intellectual property and to enhance the utilization of the small business technologies. The focus has been to utilize the private sector, not to compete with it or to stifle it. There are many small businesses that have contributed to DOE's technology needs, as a result of OTD. I encourage the continued support of OTD for the identification, test and demonstra-

tion of new innovative technologies that can reduce the cost of the DOE clean-up and enhance private sector growth and job creation. I believe that it is the private sector, not government agencies, that will successfully commercialize technologies and lead to US expansion into the global market. I would hope that government will be managed to enhance private sector growth, not compete with it or stifle it.

Based on my experience, I have several recommendations specific to DOE:

1. Make DOE accountable for the activities on-site and force DOE to manage the site contractors.
2. Impose conflict of interest provisions on the site contractors.
3. Maximize the use of privatization in the DOE clean-up program.
4. Impose limitations on DOE and other government agencies and departments that limit their ability to use taxpayer dollars to compete with the private sector.
5. Separate the Hanford Tank program from the Hanford site management contract, and force it to be managed as a special project, much like the Navy Nuclear program or the Apollo program.

Mr. HORN. Without objection, that will be entered into the record. I might say, I'm informed by staff that the General Accounting Office is completing a general management review of Energy, and it will be out in June. And I would ask majority and minority staff, you might sit down with the staff on that study, and see if some of these questions can be solved in that particular report. Does the ranking member have any other questions?

Mrs. MALONEY. Well, I have a lot of questions, but I'll submit them in writing, because we have a full day today, Mr. Chairman.

Mr. HORN. I thank the gentlewoman. There are no other questions on our side. I'd like to ask you if there's anything that we've missed, and that you'd like to get on the public record. We have your excellent statements, both of you. I've had a chance to read them; they're very thorough.

Mrs. MALONEY. And may I add my statement to the record? Thank you.

Mr. HORN. Without objection, the opening statement of the ranking minority member will be put earlier in the record, where the other opening statements are, right after mine. So if you'd like to sum-up, here, if you think we're missing something, please do.

Ms. FITZPATRICK. No, Mr. Chairman, I think the committee is doing a very commendable job. Thank you.

Mr. HORN. Well, I hope we justify your faith.

Mr. BREWER. Thank you, sir.

Mr. HORN. Let me just say, I wish to thank all of the witnesses this morning for testifying regarding the Department of Energy. This subcommittee will recess until 1:10 p.m., and we will reconvene and receive the testimony concerning the Department of Education.

[Whereupon, the hearing was recessed to luncheon, subject to the call of the Chair, to reconvene at 1:10 p.m.]

Mr. HORN. The subcommittee ends its recess, and we continue the hearing begun this morning. If the witnesses would rise, I can swear you in.

[Witnesses sworn.]

Mr. HORN. The quorum is present, and during this afternoon session we're asking various experts on the Department of Education the same types of questions we've been asking the Department of Commerce and the Department of Energy. The question is, if it was to come about today, would we create a Department of Education? Would we take some of the existing functions and put them in other agencies? Would we merge the functions of the Department

as a whole with other Cabinet departments, such as the Department of Labor.

I believe the Gunderson proposal talks about a Department of Human Resources. Or would we simply eliminate it and leave the matter to the States? These are some of the questions that will be discussed not only by this oversight committee, but by the authorization committees, the appropriation subcommittees in both the House and the Senate during this particular Congress. So we welcome both of you today as witnesses.

The committee rules are that we'll put your full statement in the record; and then we'll have 5 minutes for each of you to summarize; and then we will alternate between sides, asking questions in 5-minute segments, and try to pick your brains and get the wisdom that your experience will bring to us. We'll start with Marshall Smith, the current Under Secretary of Education. Welcome, Mr. Smith.

STATEMENT OF MARSHALL S. SMITH, UNDER SECRETARY FOR EDUCATION

Mr. SMITH. Thank you, Chairman Horn, Representative Maloney. I would like to take this opportunity to do three things. One, speak to the record of the Department; two, discuss the changes we are making to serve the American people more effectively; and three, talk about the future of the Department.

The Federal Government has a particular obligation to undertake activities that are clearly national in scope. For over 130 years, the Federal Government has had a limited but very important role in supporting and encouraging the advancement of American education; a role that today, more than ever, is in the national interest. People with more education are more likely to get good jobs. They're more likely to vote, and less likely to be on welfare. They tend to live more satisfying lives, and to contribute to their communities.

Federal involvement in education supports our democracy and our economy. This is not just a State and local interest; this is a national interest. In pursuing the national interest, the U.S. Department of Education acts in partnership to support and encourage States, districts and schools, et cetera. Education, however, remains a State and local responsibility. The public appears to support this limited mission.

In a poll released just last week, over three-fourths of the public, 77 percent, opposed eliminating the U.S. Department of Education to cut the deficit. The same percentage, 77 percent, reject cuts to student loans and other programs to reduce Federal spending.

What does the Department do? I will give five examples. First, we provide about 60 percent of the Nation's student aid, helping 6.4 million students every year attend college.

Second, through the Title I program, we direct $7 billion each year to more than 6 million children, in our highest poverty schools, to strengthen the teaching of basic and advanced skills. Between 1960 and the late 1980's, the achievement of children from disadvantaged communities and from these schools rose, closing the performance gap between disadvantaged students and their

more advantaged peers by one-third to one-half—at least in part, due to Federal efforts.

Third, we provide nearly $3 billion to help communities meet the needs of over 5 million disabled children and youth; to prepare them for independent living, further education and employment.

Fourth, through education evaluation, dissemination and technical assistance, the Department helps people identify what works in improving schools and children's performance in areas such as technology in the schools.

Fifth, we provide a national voice for education, a voice for excellence and progress. For example, every single Department Secretary, Republican and Democrat, has spoken out strongly for higher standards for student achievement, and has encouraged education reform. But, you might ask, what effect has the Department had over the last 15 years? While we cannot attribute a direct cause and effect relationship, I am encouraged by the progress American education has made since the Department was created in 1980.

While the U.S. education system can certainly do better, there have been lots of success stories; education has turned the corner. First, students are taking tougher courses. Chart two, in the back of the written testimony, sets out the dramatic differences in course-taking between 1982 and 1992. Second, participation in the Advanced Placement program has increased dramatically; that's in Chart three—again, very dramatically.

Third, student achievement is up, contrary to a lot of other reports, particularly in math and science, but also in reading. Fourth, dropout rates have declined. Fifth, post-secondary enrollment and attainment have increased to record levels. For those who are surprised by these facts, I would point out that American business and American workers have regained their status as the most productive in the world—an impossible accomplishment without an educated workforce.

Indeed, in this century, education increases in the workforce have accounted for almost one-third of the growth in the Nation's wealth. We have a long way to go, but we must be proud of our Nation's schools, public and private.

As for the Department itself, we are a small department with low administrative costs. And we plan on getting smaller and more effective. With about 5,000 FTE, we have already a significantly smaller staff than the 7,700 employed in 1979 by HEW and six related agencies to administer the same education programs we do now.

Our administrative costs account for only 2 percent of the budget. We have the smallest ratio of employees to total budget in the government—one employee for every $6 million in our budget, funds that provide services for State schools and students. Fourth, we plan on reducing our staff even further, to less than 4,700 FTE.

Now I'd like to give you a sense about what we're doing to improve our management. We have used strategic planning, consistent with the Government Performance and Results Act, to guide our efforts. First, we are streamlining our programs to save taxpayers money—a total of at least $16.7 billion by the year 2000. Overall, in our fiscal year 95 and 96 budgets, we have proposed

eliminating 59 education programs and consolidating 27 others. This reduces the number of programs by over one-third, for a savings of $4.6 billion by the year 2000.

We will shortly propose further reductions in the number of programs. In the student loan program, over the next 5 years, we will save $12 billion, through accelerating the Direct Loan program to 100 percent of new loan volume. We have decreased the student aid default rate from a peak of 22 percent to 15 percent, and we intend to keep driving it down further. We've also increased our student loan collection efforts, cutting in half costs of defaulted loans to the taxpayers.

Second, we are cutting regulations, as part of President Clinton's Regulatory Reinvention Initiative, under the Vice President's leadership. Today, we eliminated 88 of those regulations, 399 pages in all; that's 30 percent of our total regulations. We will shortly be announcing dozens of other regulations targeted for elimination and reinvention and simplification. Third, we are providing more flexibility to States, districts, schools and families, through waivers administered by both States and the Federal Government.

Finally, I would like to speak about the future of the Department itself. The U.S. Department of Education has a limited but crucial role. We are a national voice for education, a partner in State and local reform efforts, a provider of access for over 6 million post-secondary students, and a leader in addressing areas of national concern. A number of people in Congress and elsewhere advocate abolishing the Department, and sending its programs to a variety of other agencies, or merging it with another department.

These moves would save little, if any, money in administrative costs—recall the 2 percent administrative costs—and may end up costing more, through duplicated uncoordinated efforts if programs are split or scattered, or an increased bureaucracy if a merger takes place. Moreover, for States, local governments, post-secondary institutions and other customers, these proposals would cause confusion, leaving them uncertain about where to go for information and assistance, or else swamping them in a newly created mega-bureaucracy.

Finally, any of the proposed changes would send the signal that the United States is turning its back on education at a critical time in its history. To quote Secretary Riley, "It is clear that the future strength of our Nation lies in the education of our citizens, and in how well prepared they are to meet the challenges of the 21st century." This is not the time to walk away from our children and their education. Thank you. I'll be happy to answer any questions you may have.

[The prepared statement of Mr. Smith follows:]

PREPARED STATEMENT OF MARSHALL S. SMITH, UNDER SECRETARY FOR EDUCATION

THE U.S. DEPARTMENT OF EDUCATION: WORKING FOR LEARNING

Thank you for the opportunity to speak with you today on the role of the U.S. Department of Education, its mission of ensuring equal access to education and promoting educational excellence, and the transformation it is undergoing to carry out its mission and serve the American people more effectively.

THE FEDERAL CONTRIBUTION TO EDUCATION

Serving the National Interest in Education

The federal government has had a limited but very important role in education for over 130 years. This role started with federal support for the land grant college system in 1862 and expanded after World War II through such measures as the GI Bill, the National Defense Education Act, Head Start, and postsecondary student aid. Federal involvement in education supports America in sustaining an informed, involved citizenry and in developing the educated workforce we need to compete in a global economy. People with more education are more likely to vote; they tend to live more satisfying lives and to contribute to their communities.

Likewise the U.S. Department of Education has a limited but very important role—a role that citizens of this country recognize and espouse. Indeed, recent polls show the public's strong support for the Department.

- When asked how necessary they think the federal Department of Education is, fully 80 percent of respondents said that the Department is necessary; 70 percent believe it is "very necessary" (NBC/ Wall Street Journal, January 1995).
- In a poll released just last week, over three-fourths of the public (77 percent) oppose eliminating the U.S. Department of Education to cut the deficit. Public opposition to eliminating the Department was indeed higher than opposition to reducing cost of living adjustments in Social Security. The same percentage (77 percent) reject cuts to student loans and other education programs to reduce federal spending (Time/CNN, May 1995) (Chart 1).

The U.S. Department of Education addresses five areas of critical national concern:

1. Increasing Access to Postsecondary Education

As college becomes more and more expensive for average Americans, the Department provides 70 percent of all student aid, about $32.5 billion, to give students greater access to postsecondary education—the best system in the world. Pell Grants assist 4 million low income students; student loans help 6.5 million low and middle income students; and Federal Work Study provides aid to 700,000 students each year.

2. Helping States, Communities, and Schools Raise Academic Achievement and Meet the Needs of Their Students

The Department delivers almost $15.4 billion to states and school districts to assist local elementary and secondary schools in providing a solid education to all children. The Goals 2000 Educate America Act (endorsed by every major business, parent, and educational organization) supports community and state efforts to raise student achievement to world class levels. The Title I program directs about $7 billion to more than 6 million children who attend our highest poverty schools, to strengthen the teaching of basic and advanced skills. These programs represent a partnership between the U.S. Department of Education and the states in which we provide incentives for school reform and states and communities set their own goals and plans for improving student achievement. The Department spends nearly $3 billion to help communities meet the educational and developmental needs of over 5 million children and youths with disabilities. Additional support goes to help teachers improve their skills, build public-private partnerships to get technology into the classroom, and help schools become safe and drug free.

3. Facilitating the Transition from School to Work

The School-to-Work Opportunities Act provides seed money to help states and local communities prepare youth for good careers and equip them to learn for a lifetime through partnerships of schools, businesses, and community leaders. All states received grants in 1994 to develop strategies to build School-to-Work systems that meet the needs of their students and economies. By the fall of 1995, over half of the states will have received one-time five-year grants to build these school-business partnerships. The Department proposes to refocus the Perkins Act on helping prepare more young people for good jobs out of high school and for further education.

4. A Clearinghouse of Good Ideas and a Catalyst for Improvement

In every state and community, educators and families are learning about effective ways of teaching and learning through Department-sponsored research, evaluation, and technical assistance. The Department helps people identify what works and learn about the most promising strategies for improving their schools and their children's performance. Statistics on national trends and indicators of performance, such as the National Assessment of Educational Progress, keep the focus on areas of educational growth and on areas needing improvement. The Department is in-

vesting in more effective and efficient ways to share the good ideas through 1-800 numbers, e-mail, and the Internet. The Department responds to almost 1,000,000 information inquiries a year, providing 48-hour turnaround on answers.

5. A National Voice for Education

The U.S. Department of Education is a voice for excellence and progress, a voice that speaks to the public at large as well as within the cabinet. The 1983 report A Nation at Risk focused public attention on the centrality of education to America's future as a world leader. All previous Education Secretaries, both Republican and Democrat, have called for strong academic standards of the kind that the Goals 2000 Educate America Act now supports at the local and state level. Most recently, through the initiative of Secretary Riley, over 120 organizations have come together in a "Family Education Partnership for Learning" to support the American family, the foundation of a solid education. This initiative has been accomplished without creating a single new program or spending additional funds. As an outgrowth of the partnership, the Secretary has launched a reading and writing initiative, the kick-off of which he announced yesterday to encourage parents, other adults, and older students to read with younger children this summer.

Setting the Record Straight: American Education Has Improved

In the 15 years since the Department was created, it has contributed to positive trends in American education by directing national attention to the imperative for reform, by supporting state and local reform efforts, and more recently by focusing our programs on quality concerns, better student achievement and teaching. While U.S. education can certainly do better, and in many places education is not improving fast enough, there have been a lot of success stories since the 1980's, many assisted by the U.S. Department of Education.

- Students are taking tougher courses. By 1992, the proportion of high school graduates taking the core curriculum recommended in A Nation at Risk (4 years of English, 3 years of social studies, 3 years of science, 3 years of math) had increased to 47 percent, up from 13 percent in 1982. The average number of credits in these courses taken by seniors has also increased (Chart 2).

More high school students are taking worthwhile math and science instruction as a result of state, district, and school standard-setting, assessment, and related activity. Raising standards has increased enrollments in core courses such as mathematics and science without weakening course content or driving up dropout rates, according to analysis of experience in various parts of the nation and aggregate results. Recent reports indicate that the trend is continuing. The New York Times (May 9, 1995) reports that tougher graduation requirements in New York City public schools are spurring thousands more high school students to take and pass college-preparatory mathematics and science courses.

- Participation in the advanced placement (AP) program has increased dramatically. Since 1982, the number of participants has risen from 140,000 to 450,000, and the percentage of students participating has also increased sharply. Especially impressive is the growth in participation on the part of minority students. In 1994, 28 percent of AP candidates were minority students, compared to 13 percent in 1982 (Chart 3).
- Achievement is up, particularly in math and science. On the National Assessment of Educational Progress (NAEP), student performance has increased since the 1980's in science and math. The trend in reading has generally shown improvement (Chart 4). Results from national longitudinal studies show that the math performance of high school sophomores improved between 1980 and 1990, consistent with tougher course-taking.
- Comprehensive school reforms in leading-edge states are showing impressive gains in student performance. For example in Kentucky, a state that has overhauled its entire educational system, 4th, 8th, and 12th graders demonstrated dramatic improvement on 1993-94 assessments over previous years' tests in mathematics, reading, science, and social studies.
- On the SAT, participation is way up and scores have been rising over the past decade. Participation by members of racial/ethnic minority groups increased from 18 to 31 percent between 1982 and 1994. Math scores increased across all race/ethnicity groups from 1982 to 1994. Scores increased by 22 points for Asian American and African American students. Verbal scores increased for all minority groups, including all groups of Hispanic students except Mexican Americans, between 1982 and 1994, although they decreased slightly for white students. (These trend results are unaffected by recent changes made to the SAT program.)

• Dropout rates have declined. Overall, the dropout rate for 16- to 24-year olds declined from 14 percent in 1982 to 11 percent in 1993. Dropout rates declined between 1982 and 1993 by 4 percentage points for whites and 5 percentage points for blacks (although dropout rates for Hispanics remain high) (Chart 5).

• Postsecondary enrollment and attainment have increased to record levels. Over the past decade, enrollment in postsecondary institutions has grown steadily. The proportion of people ages 25 and over who have completed four or more years of college increased from 18 percent in 1982 to 22 percent in 1993. The proportion of minority group members (ages 25 and over) who have completed four or more years of college increased from 12 percent in 1982 to 18 percent in 1993.

For those who are surprised by these facts, I would further point out that American business and American workers have regained their status as the most productive in the world. This would not have been possible without a more educated workforce. Indeed, in this century, educational increases in the workforce have accounted for almost one-third of the growth in the nation's wealth. We should be proud of our nation's schools, public and private.

Nonetheless, a great deal of work lies ahead. Though we have turned the corner, many of the nation's schools continue to lag behind some of our chief economic competitors—this is a substantial cause for concern. The Department intends to be a supportive partner in helping states and communities accelerate the pace of school reform and encourage improvement throughout the country.

MOVING TOWARD A PERFORMANCE-DRIVEN DEPARTMENT

The Department has had widespread management weaknesses. A GAO study conducted as late as September 1992, published in 1993 with the apt title "Long-Standing Management Problems Hamper Reforms," documented a historical lack of management vision; a critical need to improve basic management systems; and a need for a cultural change from a highly centralized agency focused on the short-term, with poor internal communications. Especially troublesome was the Department's lack of a formal planning process and formal coordinating management structure.

David Kearns, former Deputy Secretary of the Department and CEO of Xerox, recognized these problems and began to address them by introducing management techniques of continuous improvement that were successful at Xerox. Under the direction of the current Deputy Secretary, former Governor Madeleine Kunin, we are turning around our management problems. To accomplish these improvements, we are listening to our customers' concerns, focusing on our critical mission through strategic planning, and using our strategic plan to transform the way we function as a department. We are well on our way to becoming a performance-driven organization, one that is a leader in implementing the Government Performance and Results Act (GPRA). To that end, we are using strategic planning to help us streamline our programs, operations, and personnel.

Focusing on Our Critical Mission: Our Strategic Plan

Over the past two years, the Department's first-ever strategic plan has driven budget priorities, resource and personnel allocations, and strategies for carrying out reform.

The strategic plan has established four clear priorities. The first three priorities in the plan focus on our programs and initiatives and build upon new legislation—Goals 2000, the Improving America's Schools Act, School-to-Work, and Direct Loans:

#1: To help states and communities enable all elementary and secondary students to reach challenging state and local academic standards.

#2: To help states and communities to create a comprehensive school-to-work opportunities system in every state.

#3: To ensure access to high-quality postsecondary education and life-long learning.

To accomplish these priorities requires a fourth priority:

#4: To transform the Department into a customer-responsive, high-performance organization to support the three substantive priorities.

Our strategic plan, modeled upon GPRA, has set ambitious targets for performance in each of the four priority areas. They include:

• Between 1994 and 1998, the proportion of students who meet or exceed proficiency levels in reading and math on such measures as the National Assessment of Educational Progress will increase by 10 percentage points.

• By 2000 at least 450,000 youth, 50 percent of high schools and community colleges, and 50,000 employers will be participating in School-to-Work Opportunity systems. Participation will increase graduation rates, increase student

achievement, increase the number of students completing a postsecondary certificate or degree program, and increase the number of students prepared for and participating in career ladder jobs.

• When fully implemented, the Direct Loan program will save taxpayers more than $1 billion a year.

• By 1998, the Department will have implemented a redesigned, integrated financial management system that substantially reduces costs, automates functions now processed manually, enhances reporting capabilities, and improves program delivery.

We are proud that the U.S. Department of Education is one of the first agencies to implement GPRA and hold itself accountable for results.

Strengthening the Department

The purpose of the fourth priority is to make the Department more effective in helping improve U.S. education. Putting this into action has required that we focus on five major areas: (1) streamlining our programs to save taxpayers' money; (2) transforming our management to make it more efficient and effective; (3) cutting regulations; (4) cutting paperwork; and (5) providing increased flexibility for states, districts, schools, and our other customers.

Streamlining Programs to Save Taxpayers' Money

Over the past two years, we have cut, consolidated, and reshaped programs. This will both save money and allow us to be more effective. We have proposed saving a total of at least $16.7 billion by 2000 by eliminating programs that do not produce results or that overlap with other federal functions, reforming the student loan program, and streamlining other existing programs:

• Between 1996 and 2000, we propose to save $12 billion through accelerating the Direct Loan program to 100 percent of new loan volume by 1997-98. This phase-in of the program will enable all schools and student and parent borrowers to take advantage of the Direct Loan program's simplicity and flexibility (Chart 6).

• We have decreased the student aid default rate[1]; we have lowered it from a peak of 22 percent to 15 percent, and we intend to keep driving it down even further (Chart 7).

• We have increased our student loan collection efforts, principally through the tax refund offset program—in 1990, defaulters returned $879 million to the federal government; in 1994, we collected $1.5 billion. The cost to the taxpayer of defaulted loans has been cut in half (Chart 8).

• In our FY 1995 and 1996 budgets, we have proposed eliminating 59 education programs and consolidating 27 others for a savings of $4.6 billion by 2000. During the coming year we will propose ways to substantially further reduce the number of our programs.

Transforming Our Management

The Department is transforming its management structure and personnel practices to implement the best management practices of business and industry. Specifically:

• The Department is saving an additional $100 million by reducing our personnel from 5,131 in FY 1995 to less than 4,700 FTE (about 9 percent) by FY 2000.

This reduction is from a staff that had already decreased to significantly less than the 7,700 employed in 1979 by similar offices within the former Department of Health, Education and Welfare and six other agencies.

Moreover, our Department is already efficient. We have the smallest ratio of employees to grant volume in the government: 1 employee per $6 million. And our administrative costs are low: just 2 cents of every Department dollar.

• We are implementing streamlining plans that cut supervisory layers, reducing the ratio of supervisors to staff by more than one-half by 1999.

• Sometime in the next few months we will announce plans to substantially reduce the number of senior management officials and offices.

• We will soon complete pilots that delegate most personnel classification and hiring authority from the central personnel office to line managers, reducing red tape and laying the groundwork for shifting these responsibilities to line managers throughout the Department by FY 1996.

[1] Cohort default rate: The percentage of student aid borrowers entering repayment status in any given year who default by the end of the following year.

• All SES employees now have performance agreements that reflect how they will contribute to implementing the strategic plan.

• We have engaged employees in revamping our operations through the "low-hanging apples" team, which addresses cumbersome but easily resolved management problems that impede progress. The team has over 100 recommended to improve efficiency and effectiveness, and most of them have already been implemented..

• The Department is using technology effectively to connect all employees electronically by the end of 1995, improving communication and helping our staff to work even more efficiently.

Cutting Regulations

The U.S. Department of Education is experiencing a regulatory revolution, as set forth in our strategic plan. We agree that regulations got out of hand during the 1980's and early 1990's, but note that many regulations are mandated by statute—we look forward to working with you to revise these statutes to reduce regulatory burden. Faced with this situation, we have worked hard to deregulate where we can, and we are succeeding. As part of President Clinton's regulatory reinvention initiative, under the Vice President's leadership, we are well on the way to meeting our challenging deregulatory goals.

• We have reached out to talk with hundreds of customers and have reviewed every single Department regulation.

• Today we eliminated 88 of those regulations—399 pages in all. That's 30 percent of our total regulations.

• We have targeted dozens of other regulations for elimination, reinvention, and simplification, in consultation with our customers and partners. Our action on them will be announced shortly as part of the President's regulatory reform initiative.

Moreover, under our new "Principles for Regulating," we regulate only when essential to meet program goals, and then as flexibly and with as little burden on states, schools, and reachers as possible.

• Some of our most significant programs, including School-to-Work and Goals 2000, have been implemented without issuing a single regulation.

• Regulations for the Improving America's Schools Act (IASA), passed in October by the last Congress, have been kept to a bare minimum beyond those mandated by Congress. Most IASA programs have no new regulations; of 49 elementary and secondary programs, 38 will need no regulations, 7 will require limited regulatory guidance, and only 4 will need full regulations to carry out the program. For most, instead of regulating we're providing clear, practical information to help states and districts implement the new law.

• To protect students and the taxpayers' investment, we are targeting our oversight regulations and activities on abuses, where rules are needed. An example of our performance-based approach is in the area of student aid. We have to ensure that schools have the means to provide refunds to students who withdraw. We scrapped a burdensome proposed rule that would have required all 7,300 colleges and universities to set aside a reserve fund to cover refunds, and instead require the handful of schools with a history of refund problems to provide a letter of credit.

Cutting Paperwork

We've listened to our customers' concerns about paperwork burden, and made significant strides in reducing it.

• In student aid we have eliminated duplicative forms, excessive parental signature requirements, and hard-copy reports where electronic transmission would work better for everyone. For example, by replacing paper Student Aid Reports with an electronic system, we eliminated 4 million paper forms. In the Direct Loan program, we provide participating schools with computer software, with a direct on-line connection to the Department to help schools get funds to students efficiently.

• We encourage states to submit a single consolidated application for all of their Elementary and Secondary Education Act programs in the Improving America's Schools Act (IASA), not only eliminating paperwork but also promoting comprehensive planning. We expect that almost all, if not all, states will be submitting consolidated applications.

• We have reduced our reporting requirements for states and districts through statutory changes, anticipating the President's request (as part of his regulatory reinvention initiative) that wherever possible agencies reduce the frequency of required reports by 50 percent. In most cases, the legislation has

reduced annual reporting to reporting every two or every three years, and the new Title I eliminates statutory requirements for annual performance reports and state evaluations. The effect of changes like these is to let states, schools, and teachers concentrate on program results, not paperwork.

Grantees told us that it was too hard and too slow to apply for education grant funds and to get the funds once they qualified. So we revamped our whole system. Specifically, we eliminated application requirements for non-competing continuation awards, allowing the recipients of 6,000 grants to submit just simple annual performance reports. Moreover, we are working to cut the number of grant awards made each year, which now total almost 10,000, by staggering competitions every other year or consolidating several priorities under a few competitions.

Providing Increased Flexibility for Our Customers

Our new legislation is helping us change the way we do business with states, districts, schools, colleges, and families, to be more flexible and help energize reform at the state and local level. Key strategies include:

- Ed-Flex, a new demonstration authority for up to six states, provides an unprecedented opportunity to encourage innovation along with performance accountability. The Goals 2000: Educate America Act authorizes Ed-Flex demonstrations that enable officials in the Ed-Flex states, not the federal government, to decide on waiver requests. Oregon, through a simple review process, is the first state to participate.
- The Improving America's Schools Act (IASA) for the first time has a broad waiver authority for most of the Department's elementary and secondary education programs. Waiver requests under IASA have already been submitted to the Secretary. Palm Beach, Florida and the Metropolitan District of Decatur Township, Indiana are the first two locales approved for a Title I waiver.
- The expansion of the schoolwide option for Title I gives all high-poverty schools the opportunity to blend Title I and other federal funds with state and local resources to upgrade the quality of teaching and learning in entire schools and throughout the entire program. In effect, this is a performance-based school grant to the point of actual delivery of services, the school. Upwards of 20,000 schools can take advantage of this option.
- The Charter Schools program provides start-up funds to encourage parents and teachers to create new public schools that can bring energy and new ideas to public schooling.
- The School-to-Work Opportunities Act, along with the Administration's proposals for the reauthorization of vocational education, provide waiver authority to allow states and local communities to integrate the reform of vocational education with broader education reforms and to strengthen the connections between education and training programs.
- Administrative funds consolidation allows states and districts, under the Improving America's Schools Act, to combine their administrative funds for Elementary and Secondary Education Act programs, giving them the opportunity to set their own priorities for administration, technical assistance, and evaluation and eliminating the artificial barriers that have gotten in the way of administering programs effectively.
- In postsecondary education, under Title IV institutions can now submit proposals to the Department to participate as "experimental sites" to try out experimental regulatory and management approaches. For example, institutions can propose that the Department waive requirements in exchange for performance measures appropriate to the institution and the objectives of the regulations in question. Many schools have expressed interest in this new opportunity.

We are building partnerships with states, districts, and postsecondary institutions to provide substantial flexibility in exchange for improved performance. In vocational and adult education, we are proposing to consolidate the more than 35 separate programs authorized under current laws into only two flexible state grant programs. These proposals, recently introduced in Congress, would greatly reduce state administrative and planning requirements and give states flexibility within broad frameworks in exchange for an emphasis on measuring and monitoring performance.

DIRECT LOANS: AN EXAMPLE OF SUCCESS

The Direct Loan program typifies our management success. For the first time in the Department's history, a loan program has received an unqualified "clean" opinion, the best rating possible, from an outside auditing firm.

The Student Loan Reform Act created the Direct Loan program to begin replacing the Federal Family Education Loan (FFEL) program, an unwieldy and duplicative

system that results in poor performance for borrowers and schools and wastes federal funds. In less than 11 months, 104 schools have begun participating in the Direct Loan program. More than 1,400 schools will participate beginning in July 1995.

Contrary to accusations by special interests intent on maintaining the status quo (Chart 9), the Direct Loan program:

- Will save $12 billion by 2000 under the accelerated phase-in proposed in the President's FY 1996 budget.
- Simplifies loan application procedures, resulting in quicker and more accurate payments to students and eliminating long lines at the financial aid office typical of the FFEL program.
- Reduces costs and improves accountability by eliminating the complicated structure of the FFEL program, with its thousands of financial intermediaries (Chart 10).
- Makes loan processing more efficient and provides for the first time the on-line, real-time information needed to better manage and oversee the loan program.
- Maximizes competition through the use of competitively-awarded contracts to private vendors, eliminating the virtual monopolies certain institutions have enjoyed under the FFEL program.

The program's customers—schools and students—have been extremely enthusiastic in their support of the new, more efficient program:

- The program has succeeded in satisfying the participating institutions: 92 percent of Direct Loan institutions said they were either very satisfied or somewhat satisfied in a recent survey.
- One school said, "Direct Loans put the students back where they belong—at the center of this business." Another stated that the Direct Loan program "is beyond a shadow of a doubt the way a loan program should have been designed 20 years ago. For those of you who have concerns, so far the Department of Education has just been super!"
- A recent Education Daily survey of first-year schools lauded the Department for quickly answering questions, addressing problems, and being receptive to suggestions about the program.
- In their first report of a survey of community college participants in the first year of the programs, community college trustees stated that "all responses were positive to the question about the Department's management of the program and quality of service rendered."

THE IMPORTANCE OF EDUCATION AND THE U.S. DEPARTMENT OF EDUCATION

The Importance of Education

All of our management reforms have one ultimate purpose—to enable us to be more effective in improving the quality of education for America's students. High quality education provides major benefits both for our nation as a whole and for individuals, promoting individual and social well-being. People with more education tend to live happier and more productive lives than those with less education:

- Greater prosperity. In 1992, average annual earnings for those with a bachelor's degree were 74 percent higher than for those with a high school diploma, and 155 percent higher than for those who had not graduated from high school. Similarly, unemployment and poverty rates are lower for college graduates than for high school graduates, and the rates for both groups are much lower than for dropouts. For unemployment, the respective rates are 3 percent, 6 percent, and 11 percent; for families below the poverty level, they are 2 percent, 11 percent, and 24 percent. (Census Bureau, Statistical Brief, August 1994; Bureau of Labor Statistics, 1991; Census Bureau, Current Population Reports, P60-185, 1992)
- Less welfare. Only 5 percent of college graduates have ever participated in government assistance programs (AFDC, Supplemental Security Income, food stamps, housing assistance, or Medicaid), and only 10 percent of high school graduates have, compared to 24 percent of high school dropouts. Only 1 percent of college graduates and only 3 percent of high school graduates have ever participated in AFDC, compared to 7 percent of dropouts. (Census Bureau, Current Population Reports, P70-31, 1988)
- Less crime. Although only about 18 percent of the population has never finished high school, this group accounts for 41 percent of state prison inmates and 47 percent of prisoners on death row. (Census Bureau, Current Population Reports, P20-471, 1993; Census Bureau, 1990 Census; Bureau of Justice Statistics, Profile of State Prison Inmates, 1991; Bureau of Justice Statistics, Capital Punishment, 1992)

• More civic participation. Fully 85 percent of college graduates and 75 percent of high school graduates, but only 50 percent of high school dropouts, are registered to vote. In the 1992 Presidential election, 81 percent of college graduates, 58 percent of high school graduates, and 41 percent of dropouts voted. With regard to volunteering, 77 percent of college graduates, 45 percent of high school graduates, and 22 percent of those without a high school diploma do volunteer work. (Census Bureau, Current Population Reports, P20-466, 1992; Independent Sector survey, 1992)

Public Support for the Department

The public understands the benefits of education and looks to the national government for leadership to help extend those benefits to all Americans. The American public sees quality education as a local concern that needs the support of governments, businesses, community members, and parents to succeed. Across the country, people tell us that they want the federal government to play a supportive role by helping students afford college; providing extra help to local communities and states that are working to improve schools, teaching, and learning; promoting family involvement in learning at home and at school; and helping create programs that prepare high school students for productive work.

Despite well-publicized claims to the contrary, there has been no "federal takeover" of the state and local roles and responsibilities in education. All decisions about what to teach and how to teach it, including sensitive issues like sex education, religion, evolution, and cultural diversity, are made at the state, district, and school level to reflect what is appropriate for local students and communities. Indeed the Department of Education Organization Act prohibits the Department from exercising any control over curriculum or instruction. Moreover, all of our legislative initiatives have increased flexibility for states and school districts, not decreased it.

The strategies the Department is pursuing respond to the public's needs. With a strategic plan and leadership willing to set ambitious performance targets, we are transforming the Department into a results-driven agency. We are cutting out the red-tape and overregulation that ties government into knots and frustrates customers. We are working with states and communities to develop partnerships that link increased accountability for performance with much greater flexibility. And we will work hard to continue to earn the public's support for improving education and carrying out our mission "to ensure equal access to education and promote educational excellence."

The Role of the U.S. Department of Education

Even though the public believes that the federal government has an important role in education and supports the U.S. Department of Education, the future of the Department is in doubt. Various proposals have been raised, including a "neutron bomb" approach that would do away with many of our staff but leave most of the programs, scattering them haphazardly around the government, and a merger that would envelop the Department in a large, unwieldy bureaucracy. Unless Congress plans to abandon the 130-year-old federal role in education, these programs will just end up being administered by someone else, somewhere else.

All of these proposals amount to nothing more than moving boxes around on an organization chart, without generating any real savings. In fact, there is a strong likelihood that costs would increase, if the history of the Department's creation, and accompanying reduction in staff, is any guide. When the Department was formed in 1980, it comprised programs that had been staffed by 7,750 people, yet within a few years its staff was reduced to approximately 5,000, where it has remained for the past decade. Merger with another Department would add bureaucratic layers and complexity for our customers, while spreading programs around would lead to duplicated overhead costs and a massive burden on customers searching for assistance and information. The likeliest outcome of any of the proposed changes will be dislocation and disruption of services to states, school districts, and students, along with the loss of a central voice for education (Chart 11). If the federal government remains committed to providing national leadership in education, the small and effective Department remains the best means of carrying out that role.

To quote Secretary Riley, "It is clear that the future strength of our nation lies in the education of our citizens and in how well prepared they are to meet the challenges of the 21st century. This is not the time to walk away from our children and (their) education."

Thank you.

Chart 1.—Public Opinion: Opposition to Proposals to Cut Deficit

[Percent of public opposed to proposals]

	Percent
Oppose Eliminating U.S. Dept. of Education	77
Oppose Reducing Social Security COLAs	62

Source: Yankelovich Partners, Inc., 5/14/95

Public Opinion: Preventing Cuts to Programs

[Percent of public who support preventing cuts]

Program	Percent
Social Security	84
Medicare	81
Student loans/education programs	77
Veterans hospitals	74
Medicaid	71
Mass transit subsidies	48
Farm programs	48
Public TV and Radio	42
Defense spending	41
Welfare programs	29
Foreign aid	16

Source: Yankelovich Partners, Inc., 5/14/95

Chart 2.—Percentage of High School Graduates Taking the Number of Courses Recommended for All Students by "A Nation at Risk"

[By Race/Ethnicity: 1982 and 1992*]

Race/Ethnicity	Percent 1982	Percent 1992
All	13	47
White	15	49
Black	10	44
Hispanic	6	36
Asian	21	51

* Although "A Nation at Risk" included one half a unit of computer science in its recommendations, it is not included in this analysis because very few students participated in computer science classes in 1982. Its inclusion in this measure would exaggerate the change in academic course taking since 1982.

Note: Courses include 4 units in English, 3 units in social studies, 3 units in science, and 3 units in math, where a unit represents a year-long course.

Source: U.S. Department of Education, National Center for Education Statistics, The 1990 High School Transcript Study, Washington, D.C., 1993.

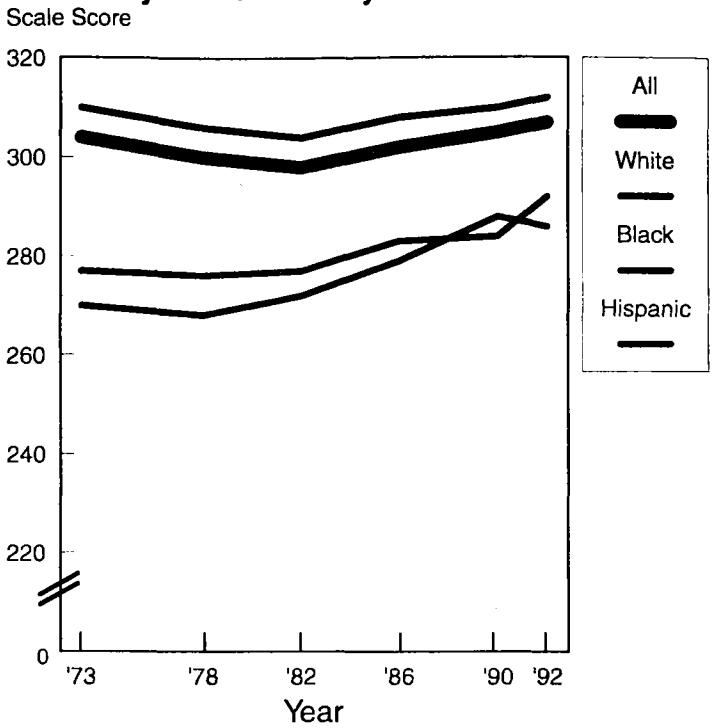
Chart 3.—Number of Candidates Taking Advanced Placement Examinations: 1982 and 1994

	1982	1994
Total Candidates	139,981	447,972
Minority Candidates	15,406	116,004

Source: The College Board, The AP Program: National Summary, 1982, 1993, and 1994.

Chart 4a

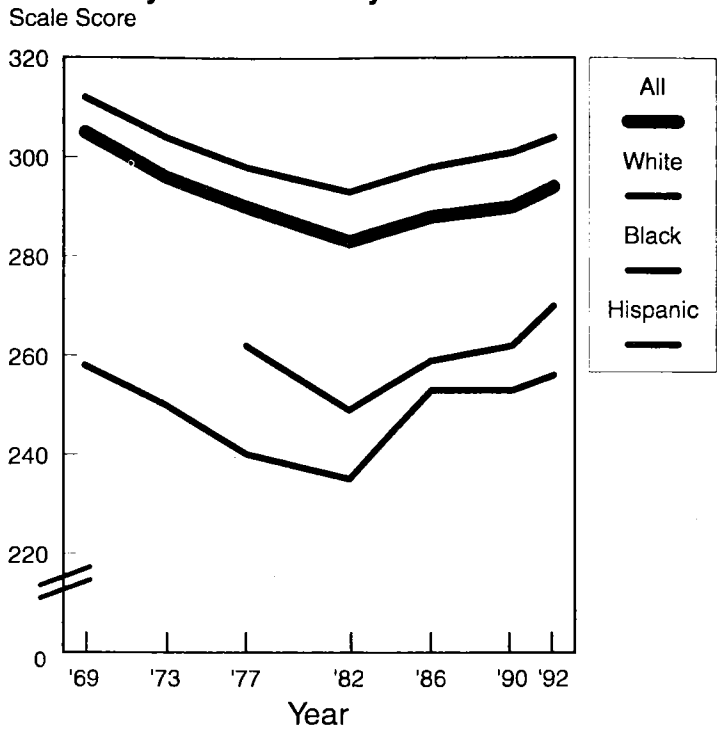
Average Math Proficiency of 17-Year-Olds, by Race/Ethnicity: 1973 to 1992



Source: U.S. Department of Education, National Center for Education Statistics, *Trends in Academic Progress: Achievement of U.S. Students in Science, 1969 to 1992; Mathematics, 1973 to 1992; Reading, 1971 to 1992; and Writing, 1984 to 1992,* Washington, D.C., July 1994.

Chart 4b

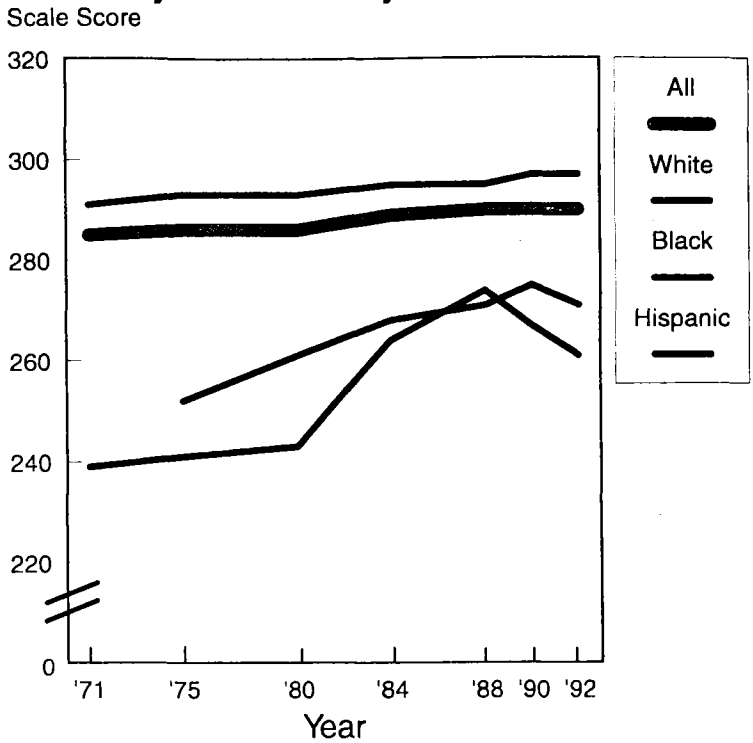
Average Science Proficiency of 17-Year-Olds, by Race/Ethnicity: 1969 to 1992



Source: U.S. Department of Education, National Center for Education Statistics, *Trends in Academic Progress: Achievement of U.S. Students in Science, 1969 to 1992; Mathematics, 1973 to 1992; Reading, 1971 to 1992; and Writing, 1984 to 1992,* Washington, D.C., July 1994.

Chart 4c

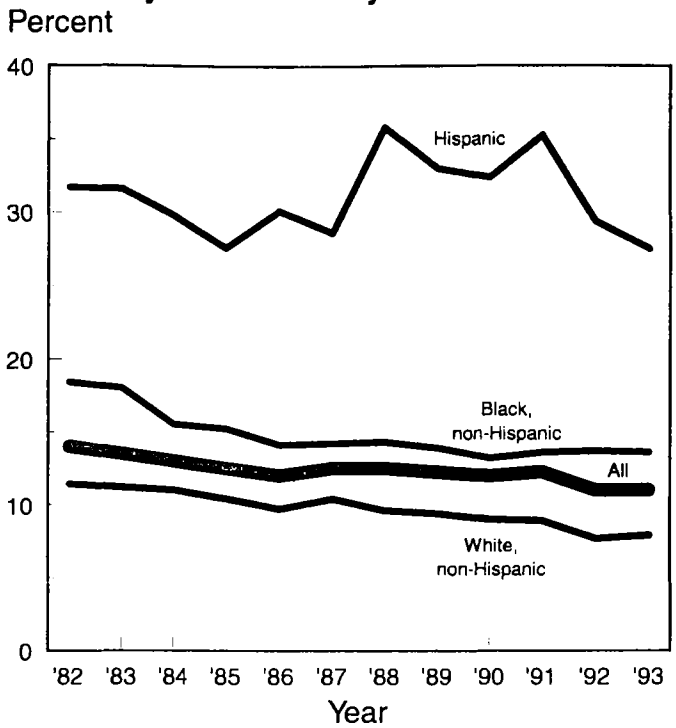
Average Reading Proficiency of 17-Year-Olds, by Race/Ethnicity: 1971 to 1992



Source: U.S. Department of Education, National Center for Education Statistics, *Trends in Academic Progress: Achievement of U.S. Students in Science, 1969 to 1992; Mathematics, 1973 to 1992; Reading, 1971 to 1992; and Writing, 1984 to 1992,* Washington, D.C., July, 1994..

Chart 5

Dropout Rates for Persons 16-24 Years Old by Race/Ethnicity: 1982 to 1993



Note: The 1992 data reflect new wording of the educational attainment item on the CPS

Source: National Center for Education Statistics, *Dropouts in the U.S.: 1993*, 1994.

Chart 6.—Student Loan Reform Act of 1992—Direct Loan Savings

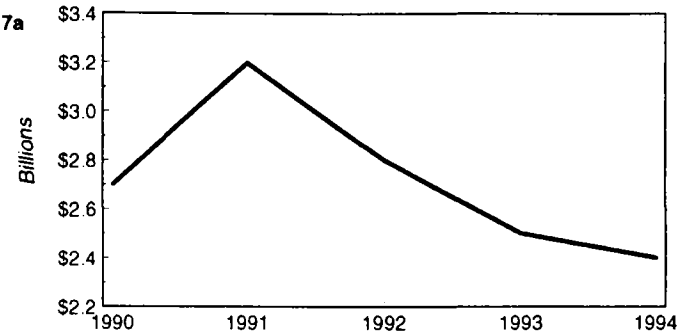
[In billions]

Year	Phase-in to 60% of Student Loan Volume	Phase-in to 100% of Student Loan Volume
1995	0.4	0.4
1996	1.1	1.7
1997	2.4	4.0
1998	3.9	6.8
1999	5.3	9.3
2000	6.8	12.0

Student Loan Defaults

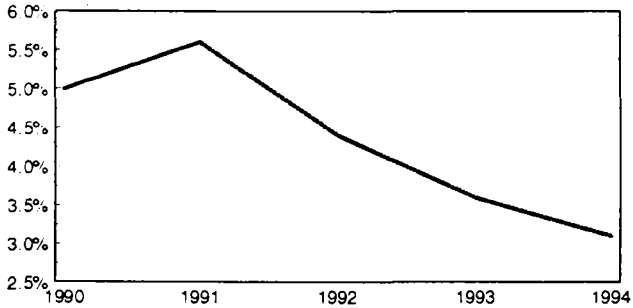
Gross Student Loan Defaults

Chart 7a



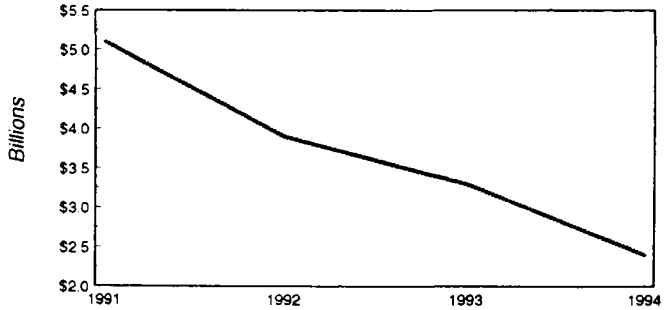
Defaults as Percent of Loans Outstanding

Chart 7b



Net Taxpayer Cost of Student Loan Defaults

Chart 8



Fiscal Year

William D. Ford Direct Loan Program: Myths and Facts

What Critics Say the Program Does*	What the Program Really Does
Hires hundreds of new bureaucrats at the Department of Education.	The Department is planning on making significant reductions in both total staff and staff needed to manage and operate the student loan programs. Between 1995 and 1999, staff needed to operate the Direct Loan and FFEL programs is expected to decline from 809 to 732, while total ED staff is expected to decline from 5,131 to 4,698.
Institutes a federal takeover of the program's funding and management.	Both FFEL and Direct Loans are federally managed programs, the costs of which are paid for by the federal government. Direct lending merely eliminates unnecessary middlemen, greatly simplifying administration and saving taxpayers billions of dollars. Under Direct Loans, the vast majority of work will still be conducted by private contractors, many of whom will be the same organizations currently conducting this work in the FFEL program.
Issues top-down mandates and rules for students and colleges.	On the contrary, Direct Loans provides much greater flexibility to schools to manage their loan programs so as to better serve borrowers. One of the primary reasons schools want to participate in the Direct Loan program is the freedom and control it gives them over their financial aid operation. The overwhelming satisfaction expressed by participating schools is evidence that the program delivers on this promise. In addition, all regulations issued in the Direct Loan program were negotiated with institutions through the negotiated rulemaking process.
Burdens colleges with more regulations and eliminates performance incentives.	Direct Loans is less burdensome and provides greater incentives for high performance than FFEL. Due to the additional responsibilities given to schools under the Direct Loan program, they are subject to some additional regulations. However, schools are compensated for this burden (schools receive a $10 fee for preparing the promissory note) and the vast majority find it much less burdensome then the FFEL program. All Direct Loan contracts have performance incentives built in. This is in contrast to FFEL, where lenders make large profits regardless of their performance.
Introduces open-ended budgets based on political objectives.	In both Direct Loans and FFEL, the cost to the Government is based on loan volume and interest rates. By replacing higher cost private capital with Government funds, the Direct Loan program saves taxpayers billions of dollars. Our savings estimates are consistent with those reached independently by the non-partisan Congressional Budget Office.
Eliminates private sector competition in the student loan industry.	We encourage competition in the Direct Loan program. All contracts to help operate the Direct Loan program are competitively awarded based on the offeror providing the greatest value to the Government. Our only consideration is what is in the best interest of students and taxpayers. This in contrast to the FFEL program, where there is no requirement that contractors be competitively selected.
Abolishes the role of states and the private sector in student credit programs.	The vast majority of work in the Direct Loan program will be conducted by private contractors—many of whom will be the same organizations currently involved in the FFEL program.
Replaces competing local, private customer-service organizations with one federal bureaucracy.	The Direct Loan program is not centrally administered but rather relies on thousands of schools and allows them to determine how best to serve their students. This is in contrast to lenders who have no real involvement or interest in the student. In terms of servicing loans, ED's contractors will be competing based on how well they serve borrowers. Those that fail to continue to perform at acceptable levels will be terminated. This compares to the FFEL program, where there is no incentive to provide high quality service to borrowers and loans are sold at the lender's convenience.

William D. Ford Direct Loan Program: Myths and Facts—Continued

What Critics Say the Program Does*	What the Program Really Does
Forces the Internal Revenue Service to collect student loans and imposes new wage reporting burdens.	Apart from offsets against tax refunds, the IRS has no current role in the collection of student loans and there are no changes in wage reporting requirements created by the Direct Loan program. The only IRS involvement in the Direct Loan program is to provide income data, with borrower's permission, to the Department for those borrowers choosing income-contingent repayment.

*Taken from the May 9, 1995 statement of William Hansen, submitted to the House Subcommittee on Government Management, Information and Technology, Government Reform and Oversight Committee.

Chart 10

Structure of FFEL and Direct Loan Programs

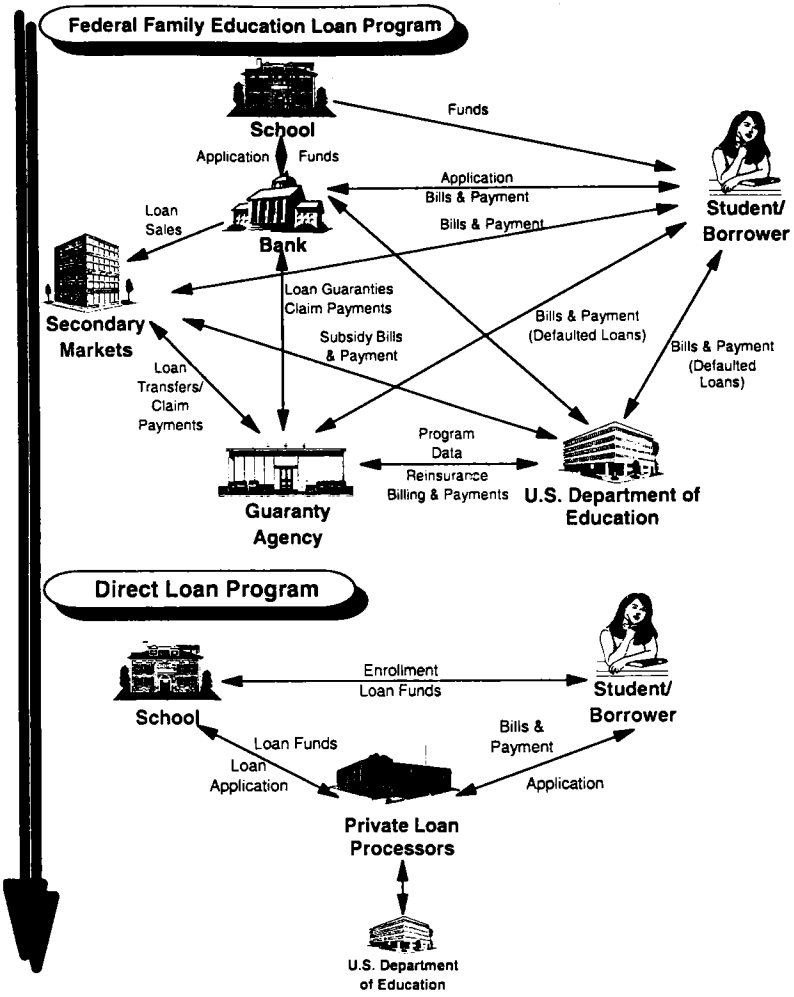
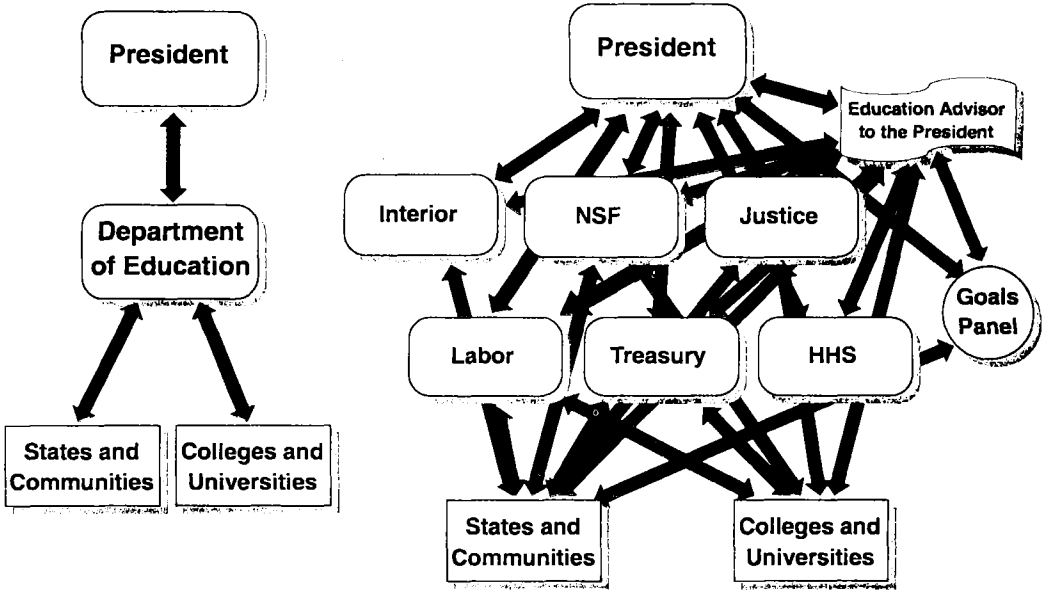


Chart 11

Dispersion of Current U.S Department of Education Functions



Now **Proposed**

Mr. HORN. Mr. Smith, let me just identify Mr. Wurtz, who accompanies you. Mr. Wurtz is the Chief Financial Officer of the Department of Education. He has a very rich experience with the General Accounting Office prior to that. We might be asking you some questions, Mr. Wurtz, in terms of your comparison in the experience in education with, say, the reviews you managed on the Customs Service, NASA, Guaranteed Student Loan Program, which, of course, is within the jurisdiction of Education.

Let me pursue some general questions. There's no doubt in my mind that the Department of Education, and the Secretary, in particular, can have a very valid service in the role of what Theodore Roosevelt called the bully pulpit, articulating the importance of education as basic access to every opportunity you and I can think of, in this Nation. And that role I commend, and that is one of the reasons I headed a national coalition to create the Department.

I believe the figures are that the money under your jurisdiction is about 5 percent or 6 percent——

Mr. SMITH. About 6.

Mr. HORN [continuing]. Of the money that's going in to public education in America, across the board. The rest comes from State and local sources. One of the things that concerns me—and this is now minor, compared to the whole picture, but I want to raise it—is the so-called thickening of government. And we're going to have Professor Light here in the future to discuss that concept in more depth.

But as I look at your organization chart, for example, we have a Secretary of Education. Under the Secretary is the principal Deputy, the Deputy Secretary, and your office is under the Deputy Secretary, as the Under Secretary. What is not clear, and I'd like you to explain it as best you can, is what are the responsibilities of the Under Secretary? Do any line operations report to the Under Secretary?

Mr. SMITH. No, they don't. Staff operations do. The budget office reports to me; planning and policy office; and the evaluation office.

Mr. HORN. Well, you see, they don't show that on their chart.

Mr. SMITH. Yes, the charts are——

Mr. HORN. And I don't know. This is out of the U.S. Government Manual, page 266, I assume the most recent edition. But they show no staff offices. They show the three staff offices reporting directly to the Secretary—the Inspector General, the General Counsel and the Public Affairs office. Is that still true?

Mr. SMITH. That's still true. The Public Affairs office is technically inside the Secretary's office. But it does report to the Secretary, yes.

Mr. HORN. Then I look at another line here, going from the Deputy Secretary, around the Under Secretary, down to the basic line functions of the department, plus additional staff offices—legislative and congressional affairs, intergovernmental interagency affairs, the Chief Financial Officer, who accompanies you, and human resources and administration. So the Deputy Secretary worries about them, presumably in relation to the coordination of departmental policy, prior to it going to the Secretary. What does the Under Secretary worry about?

Mr. SMITH. The Under Secretary worries about policy, sir. He worries about policy and budget, all the planning. Policy offices connect directly into my office.

Mr. HORN. But not all policy offices, I take it. I mean, the general counsel, let's face it, is usually influential policy voice, rightly or wrongly, in most agencies.

Mr. SMITH. That's absolutely correct. They advise me in the same way that they advise the Secretary. They report to the Secretary, because that's where we wish them to report.

Mr. HORN. And I would think the office of public affairs has a role, perhaps duplicating, but certainly a view worth hearing with the office of intergovernmental and interagency affairs, you might say, in terms of the impact of the policy and so forth.

Mr. SMITH. It does, sir.

Mr. HORN. Well, if you could wave a magic wand, how would you reorganize the Department of Education as it is now, so it would be more effective and efficient as a government agency?

Mr. SMITH. Focusing mostly, now, on the support offices, we have a plan that we are submitting to the NPR II, the National Performance Review, part II. We have not yet presented it to the Vice President or to the President. And I can assure you that what it does is reduce the number of offices of the sort that you're now talking about. But I would just as soon not announce it prior to it being reviewed by the people that will make the final decisions.

Mr. HORN. If I were Secretary of Education, the one I'd want reporting directly to me is the gentleman that accompanies you, the Chief Financial Officer. I'd want to know where the money is, where it's going. And granted, it's nice to have the general counsel, the Inspector General there, and public affairs and all that. But you wonder why isn't the Chief Financial Officer up there, reporting directly to the Secretary?

Mr. SMITH. I think the Chief Financial Officer can answer for himself. I think all of us in the Department believe that we report directly to the Secretary. We have open access to the Secretary. As you know, organizations often operate on a combination of their formal charts and of their personalities and approaches of the various management folks.

And in this particular case, for both offices—both the Deputy's office and the Secretary's office—there's an open door. There's a real sense that you're reporting to the Secretary, as well as the Deputy Secretary.

Mr. HORN. You see, 30 years ago in Washington, instead of an Under Secretary, under the Deputy Secretary, they would have had a Deputy Under Secretary. There was no such thing as a Deputy Secretary. But maybe that sounds redundant, being a deputy Deputy Secretary. So we now have the old Under Secretary, which was traditionally the second in command, who actually ran the department while the Secretary was making wonderful speeches on the glories of the administration in towns around the country.

But it sort of bemuses me, amuses me, and then irritates me to see the so-called thickening of staff layers that clog up the communication of the person the President put in there to speak for education.

Mr. SMITH. I actually would like to respond, later on, with another chart for you, to try to lay out the way that the organization really works. But I think you're also absolutely right.

Mr. HORN. Yes. We'll save space in the record, at this point, when you feel you can furnish it, of both, a, you said the way the organization really works; and b, the proposal you're making to Vice President Gore and the NPR, as to how, perhaps, the next phase ought to work. And maybe those two charts will be compatible, and maybe they won't be. And I realize that people have different styles, and you try to adjust to a Secretary to how you operate, and adjust the organization how you're comfortable to get the job done.

[The information referred to follows:]

June 5 1995

Honorable Steve Horn
Chairman, Subcommittee on Government Management, Information and Technology
Committee on Government Reform and Oversight
House of Representatives
Washington, DC 20515

DEAR MR. CHAIRMAN:

Thank you once again for the opportunity to appear before you and the members of your Committee to testify on behalf of the Department of Education and the Federal role in education.

As I indicated during the hearing, I would like to expand on an issue you raised regarding the organization chart for the Department and, more specifically, the responsibilities and lines of authority for the Deputy Secretary and Under Secretary in relationship to the other Senior Officers in the Department.

The Secretary, the Deputy Secretary, and the Under Secretary serve as the Department's senior leadership team. While all three officials work closely in overseeing the Department, the Secretary has delegated areas of primary responsibility to each official. The Deputy Secretary has lead responsibility for overall management and day-to-day operations, including restructuring efforts within the Department. The Deputy Secretary also oversees implementation of the new Direct Student Loan Program. The Under Secretary has primary responsibility for education policy and program planning—including budget formulation, legislative development, program evaluations and performance measurements, and analytical studies (see enclosed chart). Obviously, these functions overlap in certain instances, and the Deputy Secretary and Under Secretary coordinate their efforts closely. This delineation of responsibilities has demonstrated its effectiveness over the past 2 1/2 years as the Department has enjoyed tremendous success in implementing management improvements and in winning support for the Administration's legislative agenda for education.

You also raised a question regarding the lines of authority for the Department's other Senior Officers. The directors of all the principal program and staff offices report directly to the Secretary and, of course, work closely with the Deputy Secretary and Under Secretary in day-to-day management and reinvention issues, and in policy formulation and direction.

I appreciate the opportunity to clarify this issue for you. If you or other members of your Committee have further questions, we would be happy to meet with you or to provide any additional information that may be helpful.

Sincerely,

Marshall S. Smith.

Mr. HORN. Well, I now yield 5 minutes to the ranking minority member, Mrs. Maloney of New York.

Mrs. MALONEY. Thank you very much, Mr. Chairman. We often hear people talk about the Federal role in education in terms of the dollars spent. They're quick to point out that the Federal Government provides only 6 percent of the funds for elementary and secondary education. Dollars spent is not always a good measure of what is being done. And I'd like to ask you, how would you define the Federal role in education? And what would you say to critics

who argue that the Federal Government provides very little benefit for a great burden?

Mr. SMITH. Well, Congresswoman, I think I'd start with a sense of whether or not the Nation believes that education is a real national priority. That's the defining characteristic, I believe of the definition of what would constitute a Federal department. I believe you've heard testimony along these lines from various people, including Professor Kettl from the University of Wisconsin.

Education has clearly become a national priority, I believe, in just about everybody's eyes. It's the foundation of our economy; it's the foundation of a strong democracy. Education affects all of us, goes across the State borders. Poor education in Newark affects what goes on in San Diego, which affects what goes on in middle America.

The Department has, as I mentioned before, a very limited but very specific set of roles. It is intended to operate as a partner with the States and local communities. It has a role in access, which has to do with the delivery of student aid, and access for people to colleges. It has a role in providing aid for the most needy in the society, those in the poorer schools and those that are disabled.

Second, it has a role in excellence. The Federal Government now provides direct support in helping States and local communities with improving the quality of their educational achievement, and with improving the nature of their school-to-work programs. I use these two examples because they're two examples that President Clinton is particularly fond of using. They are among the most critical programs that are in the Department.

Third, the Department has a role in providing, to people all over the country, information about what works in areas such as the use of technology in education. Fourth, as the chairman indicated earlier, there's a very powerful role as a bully pulpit. The Secretary has access to the President. I worked in the Office of Education about 18 years ago. That Commissioner, a man named Ernie Boyer, was a terrific Commissioner. He really didn't have access, however, to the President.

The notion of education was not on the President's agenda at that point. This Secretary clearly has access to the President. There's no way that you would get Secretary Richard Riley to be Commissioner of Education, but he would become Secretary of Education. I must also point out, in the area of bully pulpit, it's really amazing—every Secretary, starting from Shirley Hufstedler and on down to Richard Riley, have all emphasized higher standards in education.

And that seems to have worked, by the data that I pointed out earlier in the testimony. That notion has pervaded the entire country. Look at those charts, and what you see is a turnaround starting around 1982. And it's really quite amazing. Republican and Democrat alike have pushed the same fundamental agenda that our schools need to get better, that we need to be more competitive.

Mrs. MALONEY. But now?

Mr. SMITH. The Department's total budget is around $33 billion. The discretionary budget is around $25 billion.

Mrs. MALONEY. And there was an article today, that I'd like to put in the record, that was in the Washington Post, by Stephen

Barr, and it was called, "Hazards of Quick Downsizing." And it talked about a report from the Brookings Institution. And they talked about how abolishing departments may not necessarily save money, unless you abolish what government does.

They conclude by saying, "While moving from 14 to 10 or even 5 departments in the Cabinet, would create more elbow room around the Cabinet table, such a move does not make government smaller unless government does less." So I'd like to ask the chairman——

Mr. HORN. Without objection, the full article will be put in the record.

Mrs. MALONEY. Thank you, Mr. Chairman.

[The information referred to follows:]

HAZARDS OF QUICK DOWNSIZING CITED—EXISTING PROPOSALS COULD COST MORE IN THE LONG RUN, STUDY WARNS

BY STEPHEN BARR, WASHINGTON POST STAFF WRITER

Democratic and Republican drives to downsize the government pose the danger of doing more harm than good, like a dieter who decides to lose weight by cutting off a leg, two Brookings Institution analysts contended yesterday.

University of Wisconsin professor Donald F. Kettl and Princeton University professor John J. DiIulio Jr. said current budget-cutting plans aimed at abolishing Cabinet departments and restructuring the executive branch would not save money and run against the downsizing lessons learned over the last decade by the nation's largest corporations.

"No restructuring is cheap," Kettl said. Efforts aimed at saving money usually create "short-term mischief" that lower morale, interrupt the delivery of services and could cause more damage to an organization's performance than the original problem.

"Downsizing or doing away with government agencies does not automatically do away with the people they serve, the public demands they embody, the programs they administer or the tasks they perform," DiIulio said. If the government is going to be put on a diet, he said, it should shed pounds in a way that makes sense and looks to long-terms results.

Kettl and DiIulio offered their assessments at a luncheon where copies of their new study, "Cutting Government," was released. The report, one of a series from the Brookings Center for Public Management, comes as House and Senate Republican task forces call for the elimination of at least four Cabinet departments—Energy, Education, Commerce, and Housing and Urban Development.

The first section of the report summarizes 10 tasks from across the federal government, ranging from air traffic control to monitoring pension funds to managing defense contracts. In the case of the Pension and Welfare Benefits Administration, Kettl and DiIulio point out that just 621 federal employees oversee $1 trillion in pension funds. Tinkering with the agency would produce minuscule savings but "potentially weaken the confidence of employees already rightfully nervous about the future of their retirement income," Kettl and DiIulio write.

The second section touches on past commissions named to reorganize the executive branch and efforts to restructure private-sector companies. "Managers who believed they could downsize once, solve their problems, and return to normal tended to fail," Kettl and DiIulio said. "Managers who built restructuring into a careful look at their operations, their mission, and how best to achieve it tended to succeed far more often. Restructuring, taken as an end in itself, led to failure."

The two analysts look to Congress to play a pivotal role if attempts to overhaul the executive branch are to succeed, in part because they think "the congressional committee that oversees an executive agency is a far stronger presence than the president or the White House staff." They predict "little will be accomplished" unless Congress decides to consolidate programs as it cuts and merges departments.

The most critical questions of restructuring depend on Congress, they write, starting with how many Cabinet departments to have. "While moving from 14 to 10 or even five departments would create more elbow room around the Cabinet table, such a move does not make government smaller unless government does less," they said.

Mrs. MALONEY. And earlier, during the Department of Energy—we had a hearing earlier—there had been a study by the Congressional Budget Office in the early 1980's that showed that, since they were going to save basically what the Department of Energy did by moving it to other places, you wouldn't really save any money. And given the fact that education is definitely a priority in this country, probably the No. 1 priority, I would like to respectfully request from the chairman that we request, from the Congressional Budget Office, to do a study on exactly how much we would save if we rearranged the office of education.

And, personally, I don't believe that the Education Department will be abolished. I think it's too important, and it should be a Cabinet position. But if it was, where would the duties go? And then the question that is asked by Brookings Institution, what duties that you're doing should you not be doing, that should be cut? You were mentioning letting the public know, sharing information to the public schools and the private schools of what is working in education is vital; and other coordinating duties that a Federal Government should do for such a vital area as education.

So my question is, if it happens—and actually, in this budget we just passed, it did happen—where would the duties of the Education Department go? And can you think of any duty that you are currently doing that you should not be doing? I mean, we will not be saving money if we just move what you are doing here, and move it over there.

Mr. SMITH. Right. Two parts to this question. The first is, what would happen to the people in the Department, but also, what would happen to the programs in the Department? There was an experiment done, in effect, in 1979 and 1980, when the Department was created. Granted, it was an experiment going the other way, but what happened in that experiment, really, was a number of programs—the programs that are now in the Education Department—were pulled together from six different agencies, and clustered into one department.

Now, what happened at that point? Well, over the course of about 2½ to 3 years, the number of people administering those programs dropped from the 7,700 that were administering them within the six different departments they had been in, to about 5,000—a savings of about a third on the S&E budget. Now, if we were to be distributed now, if the Department of Education's functions were to be distributed across a variety of different departments, perhaps the same thing would happen in reverse.

That is, the number of FTEs would have to go up. And let me give you an example. I worked in the Office of Education. We had a budget office; we had an evaluation office; we had a legislative office and so on, focused on education. At the same time, at HEW, there was a component of their budget office, a component of their evaluation office, a component of their legislative office, et cetera, all focusing on education—clearly a duplication of function, creating more people, possibly, if we were to expand out into five or six different departments.

There are all sorts of different configurations that one might imagine. There's been talk of sending student aid programs to HHS, or to Treasury. There's been talk of sending a variety of dif-

ferent programs to Labor and so on. So there are a bunch of different proposals on the table, and I don't want to spend time going through them. But I think in every one of them, you would lose—I think it would potentially cost more money. And as you indicated, you lose the one-stop shopping part of the information.

You would lose the one place where students and teachers and superintendents and so on could go to get assistance involving education. And you would also lose a national symbol. You would throw a signal out to the entire country, and to the world, that we didn't value education in a way that almost every other country does.

Mrs. MALONEY. My time is up, but the second part of the question, is there any function that you're performing now that you think—as Brookings said, the only way you downsize is to stop performing the functions that you're performing.

Mr. SMITH. Right.

Mrs. MALONEY. Is there any function that you're performing now that you feel that is not essential?

Mr. SMITH. There are. In the last 2 years, 1995 and 1996, we proposed, as you know, the elimination or consolidation of about 86 programs, over a third of our programs. There are other programs that we believe have either outlived their usefulness, or are so small that they aren't having a real effect. And we'll be proposing reductions in those programs or elimination of those programs over the next 2 or 3 months, again, in NPR II.

And I apologize for being constrained by this, but I do need to hold off until there's been approval of the proposals that I talked with the chairman about. We will also be consolidating some of those administrative functions. So I believe that we can save considerable money. In fact, we already propose, in the testimony, strategies to save roughly $16.4 billion over the next 5 years.

So there has been, in fact, a major effort not just to downsize, but to make much more effective the nature of both the organization and the Department's functions.

Mr. HORN. Let me just make a clarifying comment, before turning to Mr. Owens. As a former senior fellow at the Brookings Institution, I know that Brookings says nothing; individual scholars are the ones that say something, good or bad. It's obvious that if you merge departments, you can save all the staff functions. There's only one Chief Financial Officer, not two, and you go right on down the line. It's just a question of how big and how large the subsidiary staff is. But I think it's pretty obvious, economies can be made in any merger.

Spreading things around, you'd have to look at that. I think majority and minority staffs ought to see whether GAO, the existing Department, CBO—if they have anything to say on the subject—could give us a sort of ball park estimate under the options of merger, spreading around, consolidation, et cetera. At one time, the assistant secretary for education, prior to the creation of the Department presumably coordinated about 22 agencies, as I remember, of the Federal Government, that had some aspect of education.

Now, presumably, a lot of those are still related to the Secretary, but they're sitting over in Agriculture with a program that could be described as education.

Now I'm delighted to yield to the gentleman from New York, Mr. Owens.

Mr. OWENS. Thank you, Mr. Chairman, I apologize for being late, but we've privatized the House dining room, and it's very difficult to get a sandwich over there now. In the constellation of department level agencies, where is the Department of Education? We know that the Pentagon is the largest. And the Department of Agriculture, by the way, is the second largest in terms of number of employees. Although this Nation only has a 2 percent population who are rural and farmers at this point.

The Department of Agriculture is the second largest bureaucracy, in terms of people. Where is the Department of Education in this constellation at this point, in terms of size, in terms of employees?

Mr. SMITH. We are substantially the smallest. We have about 5,000 employees. When looking at the ratio of the number of employees to the amount of money that we put out, we have the best ratio. We have one person for every $6 million that is distributed by the Department. The department's efficiency, in terms of overall effectiveness, is superior to every other department on those terms.

Mr. OWENS. You said your overall budget is about $36 billion?

Mr. SMITH. About $33 billion.

Mr. OWENS. How much of that is higher education?

Mr. SMITH. About half; you can just about break it in half. There's, as you know, a block of money in mandatory programs, in the loan programs in particular, and then there's a large block of money in the Pell Grants and some other higher education programs. So it's about $15 billion or $16 billion in higher education, perhaps a little bit more; and $14 billion or $15 billion in elementary and secondary education.

Mr. OWENS. How does the Department of Education of the United States compare with the Department of Education of other civilized industrialized nations? Start with Japan, for example.

Mr. SMITH. Well, it's difficult to compare, because as you know, we have a Federal system. There's a Federal, State and local governments, and we have a Constitution that gives the responsibilities of education to those governments.

Mr. OWENS. Do you think the total Federal cost for education is still about 7 percent; 6 or 7 percent of the total?

Mr. SMITH. Oh, no, their expenditures in many of those countries is practically 100 percent.

Mr. OWENS. I mean for this country.

Mr. SMITH. The total cost is over 7 percent.

Mr. OWENS. About 7 percent we spend on the total cost of education?

Mr. SMITH. Right, that's right.

Mr. OWENS. And it's highly federalized in Japan.

Mr. SMITH. Right. Almost all the money comes from the Federal ministry in Japan, to the local schools.

Mr. OWENS. And most of the other industrialized nations also have a highly centralized education set-up, don't they?

Mr. SMITH. Many of them do. There's some decentralization now going on. And of course, Germany is largely decentralized, although there is a fairly strong Federal ministry. England is becoming more decentralized than it had been before. Australia is, and Canada is,

almost entirely decentralized. But the other major countries have strong——

Mr. OWENS. Even in the decentralized countries, the role of the Federal, national government is still far greater than the role is here in this country.

Mr. SMITH. I would say that's correct, except for Canada, certainly.

Mr. OWENS. Except for Canada.

Mr. SMITH. Except for Canada.

Mr. OWENS. We started a process internally, your administration started a process of downsizing, which I don't agree with at all because I think in this era, we should be increasing the size of the Department of Education. It should never get as big as the Pentagon, but it certainly ought to be greatly increased in terms of being able to influence the way our Nation provides for education, in order to meet the great threat we face from our competitors—to have much more influence on what happens in education than there is.

You started downsizing by getting rid of small programs. It seemed that every small program was labeled as not a good program; small was bad. In my opinion, you started committing suicide, and now the murderers have been attracted; and they're going to finish the job. So I am definitely not in favor of limiting the Department of Education. I'm very much in favor of increasing the Department of Education.

In the Congressional Black Caucus alternative budget, we increase the budget for the Department of Education by 25 percent, because we think that's where the Nation ought to go. And I think the administration should take a stronger line in that direction and accentuate the positive, instead of failing to set priorities and assuming that across the board, downsizing should take place for all of these agencies, and education has to give its share.

That was a mistake, I think. We should be emphasizing the fact that, in this era, the future of America depends on how educated its population is. We should not be afraid to make education a priority and provide the funding that's necessary to do that. Thank you, Mr. Chairman.

Mr. HORN. I thank you. I believe we have a vote on. Let me pursue one small item, but it's illustrative of some of the discussion as to the centralization of education or the decentralization. When the statute that guides your department was written, it was made very clear that the central Department of Education in the Federal Government would not be in a position to mandate curriculum across the country.

What it would be in the position to do would be create model curricula and say to anyone, if you'd like to use it, here we've invested in trying to develop the best we possibly can with the experts that we see throughout the country. And it seems to me that was a very sensible approach, given the Federal nature of our system and the strong feeling in the country that the local school boards should decide policy. In many States the State board decides a range of textbook, and then the local school board on K to 12 actually adopt.

But these are the little crazy things that bother some of us on Capitol Hill. The Department of Education, United States, goes to

Pennsylvania State University, and somebody in the Department decides that the Buckley amendment, which we all know what that is, and for those that don't, this is the privacy amendment, relating to educational records, passed in the other body without a hearing, and applied to all schools years ago.

But when this employee goes to Pennsylvania State University, he notes in the library the masters' theses and doctoral dissertations are publicly available. And the Department makes the claim that, sorry, this applies under the Buckley amendment. And therefore, if a student writes a masters' thesis or a doctoral dissertation, the student can also tell the library, no one will ever see it without my permission. And this is announced by the U.S. Department of Education.

Now, I regard that as one of the most stupid decisions known to mankind in the last 50 years in the Federal Government. Why? Very simple because everybody that's ever set a toe in a university knows the reason you require masters' theses and doctoral dissertations is so they can contribute to knowledge. In order to contribute to knowledge, there must be open access so reporters, other scholars, graduate students, and people that are getting sleepy in the library, can go find something thrilling in the theses part of the library.

I'm curious if you know about that decision, and why the U.S. Department of Education decided to make that decision?

Mr. SMITH. I recall the decision. I don't recall the details. I'm sorry, Congressman, I can't respond. I'll be glad to respond——

Mr. HORN. Yes, well, if you could file it to the record, as to under what authority do they think the Buckley amendment applies to doctoral dissertations and theses that have been a part of graduate education for several hundred years.

Mr. SMITH. Absolutely.

Mr. HORN. So, I'm just curious.

Mr. SMITH. Yes, there's somebody from the General Counsel's office here. I could ask them, and they could——

Mr. HORN. Well, if it's the General Counsel's office, you ought to cut the lawyers that ruled that way.

Mr. SMITH. Well, I don't know that they did it.

Mr. HORN. But whoever did it, I'd like to know what the justification is.

Mr. SMITH. Sure.

Mr. HORN. Because I haven't heard one yet, and I asked the Secretary months ago, one time. I said, are you aware of this? He responded, he wasn't aware of it even though he had signed it. So maybe somebody else over there has a pen machine. That's the kind of thing, small, but symbolic of where we can go wrong in a national Cabinet department, unless somebody's watching the store and not just out making a lot of speeches.

Mr. SMITH. I'll get a response to you tomorrow.

[The information referred to follows:]

MAY 24 1995

Honorable Stephen Horn
Chairman, Subcommittee on Government Management, Information, and Technology
Committee on Government Reform and Oversight
House of Representatives
Washington, D.C. 20515

DEAR MR. HORN:

This is in follow-up to the question you asked yesterday during my testimony at the hearing before your subcommittee. Your question related to the applicability of the Family Educational Rights and Privacy Act (FERPA) to student theses. In particular, you requested additional information regarding the Department's position on this matter.

As a matter of background, the Family Policy compliance Office (FPCO), which administers FERPA, was asked in 1993 by an assistant university archivist at Pennsylvania State University whether the privacy protections afforded students under FERPA extend to student theses, which may be publicly available in university libraries for research purposes. The Department's May 11, 1993, response was not a new interpretation of FERPA but rather a reiteration of the statutory language of FERPA which defines education records broadly.

The FPCO worked with the Association of Research Libraries (ARL) and the American Library Association (ALA) to resolve the concerns that had been raised about this issue subsequent to the initial letter to Penn State. By letters dated September 1, 1993, to the Executive Director of the ALA and the Assistant Executive Director for Federal Relations of the ARL, the FPCO clarified that an institution would not need specific written consent prior to disclosing or publishing a thesis in the institution's library.

The FPCO further explained in the September 1 letter that neither the FERPA statute, legislative history, nor the regulations require institutions to depart from established practices regarding the disclosure of student theses so long as students are advised in advance, such as in a course description or syllabus, that a particular thesis will be made publicly available.

Both the ARL and the ALA were satisfied with the response, and the Department has not received further inquiries about this matter. Additionally, as a matter of note, the Department has never received a complaint alleging a violation of FERPA regarding this issue. As you can see, the Department has worked hard and imaginatively within the statutory framework enacted by Congress to reach a practical resolution of this issue. This resolution has been well-received in the academic community.

I trust that this information is helpful to you. While the fact that student theses are education records subject to FERPA is not a policy decision on the part of the Department, but rather an application of the statute and legislative history, I believe that the Department has taken a flexible approach with respect to this matter which has satisfied the needs of the academic community.

Sincerely yours,

Marshall S. Smith.

Mr. HORN. Now, as I understand, Under Secretary Smith, you worked for the Carter administration. I'm curious, did you agree with Secretary Califano that splitting off education was a bad idea; or with Vice President Mondale that it was a good idea?

Mr. SMITH. I agreed with Secretary Califano, that it was a bad idea.

Mr. HORN. Really? You would have left it with HEW?

Mr. SMITH. I would have.

Mr. HORN. Why do you come down on that side?

Mr. SMITH. I believed at that point that you could better integrate the social services, the welfare areas, and a variety of other areas that HEW contained, with education. I believed that was important to do. I still believe that's important to do. I've changed my views. I was also Shirley Hufstedler, who was the first Secretary of Education, I was her first chief of staff.

And during that time, while I was working with her, I had a very, very good working relationship with the Labor Department.

We put together the last of Carter's domestic initiatives, practically got it passed in the last days of 1980. But what I realized when that happened was that we could create the kind of relationship between parts of the social sector, outside of education, that would really facilitate education.

I believe we've done that in this administration, for example, with the Labor Department; also working with Secretary Shalala and others in HHS. So I think it can be accomplished in both places. And I also believe now that the difference in the level of esteem that the Department can be held to, if it's a Department rather than an Office, is very powerful and very important.

Mr. OWENS. Will the gentleman yield?

Mr. HORN. I will, yes.

Mr. OWENS. Are you saying that you thought it was a bad idea before, but you've seen the light now and you don't think——

Mr. SMITH. Well, I actually changed my mind back around 1980, when I was working for Secretary Hufstedler.

Mr. OWENS. Oh, I see.

Mr. SMITH. But during the time it was coming to a vote and so on, I was private about it. It was the President's initiative. If you're a Presidential—I wasn't a Presidential appointee then, but I was a political appointee. If you're that way, you——

Mr. OWENS. So, you've seen the light. Thank you.

Mr. HORN. Well, one of the reasons I was for the creation of a Department of Education was that I didn't feel the Secretary of HEW spent much time worrying about education. The money was with health and welfare. A relatively small amount of money in the vast HEW department was with education.

We're going to recess now, but we will get back to this discussion when we return from voting.

[Recess.]

Mr. HORN. Let's pick up where we left off. Is there anything more you'd like to say about the old days with HEW, and did the Secretary really have much time for education, versus the obvious focus that you can have now?

Mr. SMITH. Yes, it's clear that Secretary Riley spends a higher proportion of his time on education than Secretary Califano did. Secretary Califano spent quite a bit of time, even though occasionally it was late in the afternoon or evening, or Saturdays or Sundays. But he was dedicated to it. He spent a great number of hours on reauthorization and various policy matters, on the student loan program, on civil rights and so on.

So he may have been a little bit different than others, but your point is perfectly well taken, that clearly Secretary Riley spends more time on it.

Mr. HORN. Recall when they first brought an Assistant Secretary for Education in over the Commissioner, the Commissioner really had the line responsibilities. But the Assistant Secretary was presumably in a coordinative mode with those 22 other programs and agencies. Am I correct on that? How do you see it?

Mr. SMITH. That's correct. I don't believe it worked very well. It was a governmental advisory committee that was set up with members of the other—there were 22 other organizations. It met occasionally. Although senior people were supposed to be on the com-

mittee, they typically sent junior people. This kind of coordination is very difficult to work out in the government, as you know.

Mr. HORN. Yes. Now, under the current arrangement, does the Secretary have any coordinate responsibilities with those in other departments that relate to education? Or is there any apparatus that includes them sometimes?

Mr. SMITH. Well, there are a variety of different apparatuses that both the Secretary and the Deputy Secretary are involved with, around specific areas. Of course, by sitting on the Cabinet, the Secretary has direct access to all of the other Secretaries, and therefore can coordinate in a much more direct manner than one would have on an advisory committee of some sort.

Most of the good communication, the good work together, comes over specific problems. And I've found that over the past 2½ years, it's been a very good experience with particularly Labor and HHS.

Mr. HORN. Let me move to another field. One of the ways some say that you might solve the educational problem is simply give block grants to the States, consolidate a number of the Department programs within the Department. How do you feel about that?

Mr. SMITH. Well, I think it depends upon how you've constructed the block grant. The Secretary talks about responsible block grants. The Vice President has a term, performance partnerships. The idea is that a block grant, if it is to be responsible or if it is to be a performance partnership, would have a very clear purpose. That is, there would be a Federal purpose behind the block grant itself; that there would be great flexibility for States and locals, but they would be held accountable, under some sort of performance partnership agreement.

In this way, we begin to meet both the need to have a Federal purpose for the expenditure of Federal resources; and the flexibility that States and locals need to expend the money. The accountability side of it would then be focused on performance, rather than inputs. As part of that, in many instances, one of the accountability instruments would be targeting resources. That is, if it were a Federal purpose, for example, to serve disadvantaged youth in high poverty schools, the Federal Government would have to ask that the money be well targeted to those youth, and not just sent out across all of the schools in a particular State or community.

Mr. HORN. In your review of Department activities for Vice President Gore and the National Performance Review, was there any study given to block grants as an approach to handling the distribution of fees?

Mr. SMITH. There has been. In the first performance review, we proposed—and we've actually proposed to Congress—a block grant, a performance partnership, in vocational education and one in adult education. We intend to do something of the sort with special education. It's not quite the same as we did in adult and vocational education. But in all three of those cases, we are consolidating some programs. In the case of vocational education, we are proposing consolidation of about 20 programs, for example. We are giving somewhat more flexibility, and we're asking for some performance in return for the flexibility. We have some other performance partnerships under exploration. I'm not certain that they will in fact be carried out. Let me mention one other kind of performance grant

that's important. For Title I in the recent reauthorization of the Elementary and Secondary Education Act, we expanded the capacity of States and local governments to move to what are called school-wide projects.

In a school-wide project, in a high poverty school, all Title I resources can be used to upgrade the entire school; not only the Title I resources, but also other Federal resources can be integrated at the point of delivery of service, which is really the critical point, at the school building level. So we are also exploring ideas about how one can coordinate resources to give local school people the kind of flexibility that they need to provide services for their particular students in the most effective way.

Mr. HORN. Moving to another area, before I yield to the ranking minority member, the Department proposes hiring 600 new employees to work on loan delinquencies. Dollar for dollar, how does the comparison stack up between government solving the loan delinquency problem and putting that out to private collectors? And how does Education's collection record compare with other Federal agencies? Perhaps Mr. Wurtz can comment on that.

Mr. SMITH. Yes, let me ask Don to take that.

Mr. WURTZ. Well, Mr. Chairman, we use private collection agencies right now. There has been quite a myth created by people indicating that the Department of Education does very well putting money out, we just can't get it back. The reality is, we have increased collections by over 70 percent, just in the last 4 years. We had a decline in terms of our defaults alone, going from a high of $3.2 billion in 1991 to $2.4 billion in 1994, and we have collected almost $1.4 billion last year.

Through our refund offset collection program with the Department of the Treasury, IRS, we hit a maximum collection last year of $600 million, just in refund offset. As a matter of fact, the department uses every collection tool that OMB has recognized. We lead every single credit agency in the use of good collection tools. All of our collections are essentially—we use private collectors where we can't collect.

So the idea that somehow there is a big government program that is replacing a private sector program is sheer nonsense.

Mr. HORN. Well, what are the 600 new employees doing if they're working on loan delinquencies? Just what kind of work did they do that you haven't already put out in the private sector?

Mr. WURTZ. Well, first of all, we don't have 600 employees working on loan delinquencies.

Mr. HORN. As I understand it, the Department has proposed hiring 600 new employees; is that correct?

Mr. WURTZ. The 600 employees was originally targeted in connection with establishing the direct loan program. To date, we've only hired 272 people. And that total number was anticipated to be a peak number at the full point of implementation of the direct loan, with a decline and an offsetting reduction in the guaranteed loan employees themselves. So it's a transfer of employees from one to the other.

We have had a slight increase, as I said, 272 employees hired for direct loan purposes. That has gone up, while the Department as

a whole has come down. So we have offset, by more than the number hired, in the Department as a whole.

Mr. HORN. Well, were the people you let go, were you merely transferring them into this program, and they're under another budget?

Mr. WURTZ. No.

Mr. HORN. Or are these new hires?

Mr. WURTZ. You mean the people that——

Mr. HORN. The 272—are these new hires?

Mr. WURTZ. Many of those are new hires; some come from transfers within the Department.

Mr. HORN. And what exactly do they do?

Mr. WURTZ. They implemented the entire direct loan program. That is setting up a program from scratch, in 11 short months, to be able to set up the contracts; set up the data processing system; get the programs up for delivery to the schools, where we have provided software to the individual schools that are participating; actually setting up all of the systems to do that, within an 11 month timeframe set by Congress.

Mr. HORN. It takes 272 to write a common contract? What else are they doing?

Mr. WURTZ. No, those contracts aren't common contracts. And believe me, we're talking about contracts on the order of $300 million for managing a program over a period of years. That's for the servicing, and the collection of loans, and the processing of the information necessary for financial purposes. It is setting up the training programs for all of the schools; setting up the rules, the regulations; getting into negotiated regulations with the industry itself over the regulations to be used here.

It is a massive program. You're talking about very, very large systems. For example, the National Student Loan Data System that the Department has recently established is one of the largest data processing programs in the country. We're talking massive volumes here.

Mr. HORN. Remind me where we stand on the collection of loans and money owed the Federal Government, in terms of utilizing the income tax system.

Mr. WURTZ. Well, in terms of utilizing the income tax system, we established some years ago a tax refund offset program. That has accelerated in the past 5 years from the beginning of the program up to a maximum, as I said, $600 million that was collected in the last fiscal year.

Mr. HORN. Now, that works only if they have a refund coming.

Mr. WURTZ. That works if they have a refund.

Mr. HORN. I've never understood why we don't just bill them through the income tax and say, by the way, you owe us x.

Mr. WURTZ. Well, No. 1, the Internal Revenue Service is not set up, systems-wise, to be able to do that kind of thing. Collecting of student loans is quite different than the collection of taxes. The tax laws themselves would have to be changed to enable the Internal Revenue Service to do that. And additionally, right now, the Internal Revenue Service—the dollar levels that we're collecting are something not within their scope.

They would actually have to set up a separate division and set up separate systems to collect student loans. And we've just finished a study for the Congress that we will release shortly that explains our conclusions as to the best use of the Internal Revenue Service in this process.

Mr. HORN. And that study will be done when?

Mr. WURTZ. We should have it within the next month.

Mr. HORN. Good. We'd appreciate a few copies for the minority and majority on the committee. We'd seriously like to study this.

Mr. WURTZ. We'd be happy to provide it.

Mr. HORN. The only reason—I suggested this 20 years ago to the then-chairman of the major post-secondary subcommittee of the House. And it seems to me, the only reason I could hear up here for why someone was against it was the fear of losing jurisdiction from the Education and Labor Committee, as it was known at that time, to the House Committee on Ways and Means.

In other words, it was a silly turf battle. And for that, billions of dollars were not collected. And of course, those of us that walk these halls to get student grant money, student loan money, is the worst thing that was thrown in our face. I remember the 60 Minutes episode when some UC-Berkeley dentist bragged about how he had $60,000 of loans and he didn't intend to pay them back. Every single Member of Congress seemed to see that show, and always remembered it, nailing those that wanted more funding to help worthy college students with the response, "why don't they pay their loans back?"

Most do, you and I know. Some don't. I think Federal money ought to be collected, period.

Mr. WURTZ. Mr. Chairman, I can't agree more with you. The reality is there are always great anecdotal stories. When you actually look at the vast bulk of uncollectible student loans, the reason they're uncollectible, very frankly, is the students did not get an education.

Mr. HORN. Well, you're talking about the proprietary schools, primarily, I think.

Mr. WURTZ. Primarily. As you well know, 67 percent of our defaults come from proprietary institutions.

Mr. HORN. Right.

Mr. WURTZ. And the program is set up in such a way that the Congress must expect a certain level of defaults, if you have something you're not accomplishing.

Mr. HORN. I couldn't agree with you more. I suspect a little too much PAC money was going to candidates in both parties on the relevant committees. But that was a wide open door to stealing from the Federal treasury, besides stealing from the youth who thought they were going to get an education and then didn't.

Mr. WURTZ. Mr. Chairman, if I might go back a moment to one of your prior questions, having to do with consolidation. We have obviously looked at that and looked at what potential exists for that. One of the concerns that I have had since my role at GAO has been that one of the problems in the Federal Government is sheer size alone. And some of the biggest disasters that have occurred in the private sector are where you've had different lines of

business that people think they can run and just put them into one big conglomerate.

And they have found out, where you have a different product line, it's very important to understand that product line. It's very important to be able to specialize in the handling of that product itself, and to be able to deal with that effectively and efficiently. And it's one of the reasons I wanted to come with the Department of Education, because I saw the potential in the size of the organization to be able to turn it around and really make it a well-managed, well-run operation.

And that is exactly where I believe we are heading, and where we can go. I think if all of a sudden we put this into a mega-agency, we're going to have some serious problems in terms of being able to manage and serve this country's student population.

Mr. HORN. Interesting point. I yield to the ranking member from New York, Mrs. Maloney.

Mrs. MALONEY. I'd like to follow up on the chairman's line of questioning. I support student loans to the hilt. I think we should support it and fund it. But I also am very disturbed when I see it abused and not treated respectfully. We just passed a very tough bill on deadbeat dads, on enforcement of their responsibility, to the extent of not allowing drivers' license if they aren't being faithful to their responsibilities; garnishing wages; all types of very, very strict enforcement.

Why could we not do the same thing with student loans? Because it's these 60 Minutes stories that really hurt the support of the American people for student loans. I think that a student should have a loan to go to college. We need college educations now for many, many jobs. But why haven't we used that more strictly, as the chairman was mentioning?

Mr. WURTZ. Mrs. Maloney, let me respond a moment, because again, the student loan perhaps is one of the most difficult Federal obligations one can have. First of all, if you default on a student loan, you will never get a Federal job; you will never get a State job; your credit history—you won't be able to borrow to buy a car; you will not be able to borrow to buy a house.

That has no statute of limitations. All of your tax refunds, if you ever have any, will be recovered. And on top of that, we will garnish your wages. So the levels of which we are applying today to collect student loans is among the strongest of the Federal Government, believe me. And we are applying those. As I've said, if a student has a job, we're going to get them.

Mrs. MALONEY. OK. Now, just to clarify on his questioning. You first attempt to get the loan repaid through your office, and then you contract out to a private collector; is that correct? You try two or three times yourself, then the hard ones contract out; how does that work?

Mr. WURTZ. Well, currently, in the guaranteed loan program we have two programs, obviously, right now. But in both programs, you have a situation in which you have the initial default of a loan. Technically, the banks are supposed to apply collection procedures. Very frankly, many of the banks have little interest in collecting those loans and applying those costs to do that. That is then turned over to the guarantee agencies.

The guarantee agencies, technically, are supposed to apply procedures up front to prevent the loan from going into a final default position. There is very little incentive for the guarantee agencies to actually prevent that loan from going into default, because they get reimbursed, at the current time 97 percent of that loan when it goes into default. And if, on the subsequent basis, they turn around and collect it, they collect an additional 27 percent.

So when I was with GAO we were studying this and looking at the student loan program. At that time, like all auditors, we all come up and say, gee, there needs to be more controls here; there needs to be more controls there. And all of a sudden, we sat back and we said, my gosh, the structure of this program is flawed. And that is one of the reasons GAO at that point in time was looking into the direct loan options and what potential exists for savings in the program.

But once they are either collected or not collected at the guarantee agencies, they can hold them for a given period of time and then they revert to the Department. We will then apply collection procedures initially. If we don't collect, they're immediately turned over to the outside collection agencies.

Mrs. MALONEY. Why don't we come in, before the guarantor agency makes the 27 percent profit?

Mr. WURTZ. We will certainly do that in the direct loan program.

Mrs. MALONEY. So the direct loan program will take that—as soon as they——

Mr. WURTZ. In the direct loan program, they all come to us and we collect them immediately. And if we can't collect them on first push, we turn them over immediately.

Mrs. MALONEY. So this is terrific. How much do you think you'll save the taxpayers through this program?

Mr. WURTZ. I don't have that number off the top of my head, but I know Mr. Kornfeld has a very significant idea of how much additional savings will be collected.

Mrs. MALONEY. I would like some more information on that.

Mr. WURTZ. Through the direct loan program, we know we're going to save quite a bit.

Mrs. MALONEY. Some more information on that. Mr. Smith, I noticed in your charts that the Hispanic population has a much higher drop out rate than any other ethnic group.

Mr. SMITH. Yes, it does.

Mrs. MALONEY. Do you have any explanation for that?

Mr. SMITH. Well, part of that comes from the immigration into the United States of people who have had low incomes for long periods of time, and who speak a different language than is spoken in the United States. That is a major contributor. And when one looks at second and third generation Hispanic Americans, that drop out rate improves rather dramatically.

It's also true, however, that many Hispanic Americans in the first generation and second generation live in communities where the schools aren't as good as they are in other communities. They don't get the resources, the support systems. They don't have teachers who can speak their language. So there is, I believe, both a social reason for this and also a cultural reason.

Mrs. MALONEY. Well, I think your research shows why we need a Federal board of education.

Mr. SMITH. I think we do.

Mrs. MALONEY. To assimilate all this information.

Mr. SMITH. That's right.

Mrs. MALONEY. How would you define the appropriate distribution of responsibility between the Federal Government, State government and local school systems?

Mr. SMITH. We define it as a partnership. Secretary Riley sees the Federal Government in a supportive relationship to State departments of education and to local school systems, if they should ask for assistance. We don't have enough people to direct technical assistance right down to the school building level in most cases, although we do some of that.

The trick here, I think, is to recognize what the Organization Act of the Department of Education and many of our other acts hold out. That is that we should not be involved in curriculum matters; we should not be involved in details and mandates at the State level or the local level.

But what we should be doing is supporting, is giving assistance, is giving information, providing resources when necessary, and helping students, such as those students going on to college. So it's a little bit of a tightrope. We do not step over that line, although some critics of ours say that we have.

But if one were to talk to Secretary Riley, coming out of a Governorship of a small State, respects notions of State rights, and understands them deeply. What he is doing is trying to build that partnership over time so that it lasts beyond his tenure in the Department.

Mrs. MALONEY. OK. Thank you very much. My time is up.

Mr. HORN. Let me pursue the loan question a bit. Mr. Wurtz, perhaps you can help me with this answer. What's the average percent of delinquency of loans in the private sector? Do you happen to know that, just based on your analysis of various programs?

Mr. WURTZ. No, the average delinquency will vary by the nature of loans you're dealing with—whether they're car loans or whether they're mortgage loans, whether they're individual personal loans, consumer debt. It would vary all over, depending on the nature of the——

Mr. HORN. Where might we find answers to that if we wanted to——

Mr. WURTZ. We'd be happy to try to get you some general statistics on that, if you'd like.

Mr. HORN. Good, or point us in the right direction. One of the things that concerns me, as I look at the charts provided by the financial management service of the Treasury—you've got two charts here which, without objection, I'll include in the record at this point.

[The information referred to follows:]

Total Non-tax Delinquent Receivables—as of September 30, 1994

[$49.9 billion]

Agency	billion	percent
USDA	12.3	25
Education	14.5	29
HUD	4.4	9
SBA	1.9	4
VA	3.1	6
Other	13.6	27

Source: Report on Receivables Due From the Public, as of January 5, 1995.

Total Non-tax Receivables—as of September 30, 1994

[$241.3 billion]

Agency	billion	percent
USDA	113.7	47
Education	15.7	6
HUD	22	9
SBA	9.3	4
VA	4.6	2
Other	76	32

Source: Report on Receivables Due From the Public, as of January 5, 1995.

Mr. HORN. One is the total non-tax receivables, as of September 30, 1994. Total non-tax receivables for the Federal Government, as a whole, is $241.3 billion. Of that, the U.S. Department of Agriculture has $113.7 billion, or 47 percent. Education is relatively small—$15.7 billion, 6 percent of the non-tax receivables. Then you have HUD, SBA, VA, so forth.

What concerns me is the next chart, which is the total non-tax delinquent receivables, as of September 30, 1994. USDA has only $12.3 billion out of $113.7 billion that are delinquent. Education has $14.5 billion, or 29 percent of the delinquent non-tax receivables, out of a total number of non-tax receivables of $15.7 billion. Do you think that ratio is one that we can be proud of?

Mr. WURTZ. I think what that chart shows, Mr. Chairman, is you don't mix statistics. That is a chart that we are currently working with OMB to improve the nature of the data to make some meaning out of it. It is totally meaningless at the present time. Let me give you an example—when you compare those debts at Agriculture, you're talking about the original direct loans they have out there. What we're talking about, in the loans that show up for Education, are all defaults to begin with.

They are already delinquencies, because at the point in time that chart was prepared, we did not make any direct loans. So what you're seeing there as a gross amount was delinquent at the time we got it; it was in default. So therefore——

Mr. HORN. So you're saying there's a difference between a default and a delinquent default.

Mr. WURTZ. Well, let me give you a delinquency, a loan that you could have with the Department of Agriculture. Let's say you have a farmer's home mortgage loan. That loan is, let's say, for $100,000 for a piece of farm property. They haven't made their payment in, let's say, 120 days. They're delinquent on that loan. A default from

our point of view is a loan that is delinquent for over 270 days—we've got dead loans sitting there.

These are loans we paid off to guarantee agencies that are in default, and now we're trying to collect an already-dead loan. So the meaning of those statistics doesn't really prove anything. This proves what you've measured when you begin with, not the total portfolio. Our total portfolio at that point in time was $70 billion. Our total default rate has gone down from 22 percent in 1991, to 15 percent currently.

So if you look at charts 7 and 8, that we have provided you, you can see that our delinquencies have gone down significantly in terms of our defaults as a whole. You can see on 7A, your gross student loan defaults hit a peak of about $3.2 billion in 1991. They're now down to $2.4 billion in 1994. As a percentage of the loans outstanding, getting a peak of almost 5.5, 5.6 percent in 1991, down to a little over 3 percent in 1994, as a percent of loans outstanding.

So our record is improving substantially, in terms of the total number of loans that are out there that we're guaranteeing, and now, that we will be making directly.

Mr. HORN. The charts referred to are charts 7A, 7B and 8, reference to student loans defaults, which accompany the statement of Under Secretary Smith; just so the reader ultimately has a sense of comparing these. I must say, I do find it difficult—and we will be asking the Treasury—as to the common terminology, and whether we're really off that much. These are official Treasury charts?

Mr. WURTZ. Yes.

Mr. HORN. Note it starts with $241.3 billion, total non-tax receivables, of which $49.9 billion are non-tax delinquent receivables, of which Education is 29 percent of that.

Mr. WURTZ. Yes.

Mr. HORN. More than any other agency, or combination of agencies.

Mr. WURTZ. Exactly, and as I said, we're working currently with Treasury and OMB to change the nature of that chart to make it meaningful. Because at the current time, if you start with everything delinquent, you're going to end up with a large percentage of the delinquencies.

Mr. HORN. Well, we start with everything receivable, and then we end up with the delinquent receivables, according to these charts.

Mr. WURTZ. See, and that's what we don't have. We didn't have—the receivable is a defaulted student loan. When we get it on our books as that, it's a defaulted student loan, because we don't show the total loans outstanding, because they're guaranteed loans, not direct loans.

Mr. HORN. Well, the irony is, the money is about half the budget of the Department of Education for 1 year. With the government having a $250 billion deficit, heaven knows that if we could collect some of these, it would help a little bit.

Mr. WURTZ. That $14 billion has been accumulated over about the past 10, 12 years.

Mr. HORN. And private collection hasn't done any good?

Mr. WURTZ. We've collected a great deal over that period of time. As I said, our collections have gone up dramatically. And we are continuing to improve our collection efforts every year, as shown by the rate going down in chart 8 of our total defaults as a percentage of the loans outstanding.

Mr. HORN. Well, I look forward to that paper where you will tell us how we get our money back. I don't care if it's how many years ago, I just think they ought to pay up. Education needs better consumer information, as we all know. Universities, I think, do a pretty good job now in that area, of telling students what their obligations are. But to me, it's absolutely outrageous to not collect this money.

Well, we thank you for your testimony. It's been very helpful and it stimulated a number of ideas in a number of areas to pursue. I thank you for coming and sharing it with us.

Mr. SMITH. Thank you.

Mr. HORN. Panel three becomes panel two. We have Mr. Finn and Mr. Hansen. So if you will come forward, we'll begin. Raise your right hand, gentlemen.

[Witnesses sworn.]

Mr. HORN. We're delighted to have you with us, two recognized experts in this area. We start with Dr. Chester Finn, John M. Olin fellow at the Hudson Institute. Dr. Finn. We put your statement in the record, as you know, and please try to summarize in 5 minutes, and then we can question you.

STATEMENT OF CHESTER E. FINN, JR., JOHN M. OLIN FELLOW, THE HUDSON INSTITUTE; AND WILLIAM D. HANSEN, EXECUTIVE DIRECTOR OF THE EDUCATION FINANCE COUNCIL

Mr. FINN. Thank you, Mr. Chairman. It's nice to see you again. My recollection of this room was formed about 16 years ago, when I accompanied Senator Moynihan, for whom I was then working, to this room as he tried to explain to Chairman Brooks and the committee why it was a bad idea to create a Department of Education. Sixteen years later, I find myself back here, hopeful that the committee will now remedy the damage.

I've called my statement, "Rethinking the Federal Role in Education."

Mr. HORN. I assume you wrote both statements.

Mr. FINN. They're consistent, too.

Mr. HORN. Good, OK.

Mr. FINN. A lot of time has passed, and a certain amount of water has flowed over the dam. As you know, several of your colleagues tomorrow will introduce a bill to fundamentally transform the Federal role in education, including the abolition of the Department of Education, and a Senate bill will follow. The essence of what I'd like to say can be communicated in seven blunt sentences. I'd like to state them, and then elaborate just a bit.

First, I believe the Federal Government has become a meddlesome, bullying force in American education, especially at the primary and secondary level; one that undermines State, community and parental responsibility and impedes more reform than it fosters. Second, nearly all of its programs, especially at the Department of Education, are addressed to yesterday's problems—the

problems of the mid-'60's—problems of quantity and supply and access, and are almost entirely unsuited to today's central education problems of quality, productivity and effectiveness.

Third, efforts to reinvent the Department of Education are futile, precisely because the essential nature of most of what the Department does is out of sync with what the country needs today. Fourth, as an agency, the 15-year-old department arose from a bald political deal between President Carter and the National Education Association, and today is more attentive to the interests of the unions and of education's other producers than to the interests of consumers.

Fifth, consistent with the bill that's going to be introduced in the House tomorrow, one of three things should happen to every activity of the Education Department—termination, consolidation into strings-free block grants, or transfer to other Federal agencies. Sixth, then we wouldn't need an Education Department, and it could be put out of its misery. Seventh, insofar as there is any enduring Federal role in education, its focus should be on fostering family responsibility, local control, State authority, providing sound statistics, assessments and other information, and safeguarding individuals from illegal discrimination.

Well, that's seven, and I'd like to just emphasize what I believe is the most important point here, which is the archaic nature of the programs themselves. The Department of Education's 240 programs, with few exceptions, are embodiments of the Great Society's diagnosis, in the mid-1960's, of what was wrong with American education: There wasn't enough of it. And most of the programs and most of the money go to solve that presumed problem, which may well have been a legitimate problem as perceived 30 years ago, but which is, I think, entirely out of whack with the central dilemmas facing American education today, which have to do with efficiency, productivity, performance, quality, student achievement.

The Department of Education is almost irrelevant to those activities. And many would say it's become dysfunctional with respect to those objectives, because of the ways in which it constrains what States and communities and families can do to improve their children's education. I'd be happy to supply some examples, but I think in the interest of the subcommittee schedule, I'll wait until there's time for discussion. Thank you very much.

[The prepared statement of Mr. Finn, Jr., follows.]

PREPARED STATEMENT OF CHESTER E. FINN, JR., JOHN M. OLIN FELLOW, THE HUDSON INSTITUTE

Mr. Chairman and Members of the Sub-committee:

I appreciate the invitation to appear today. To begin with my conclusions: the federal role in education needs a top-to-bottom overhaul and radical shrinkage. In keeping with that overhaul and shrinkage, the structures that manage the present role need fundamental alteration; in the case of the Department of Education that alteration should take the form of disestablishment. Bills to accomplish those changes are being introduced this week in both House and Senate. Many such changes are also foreshadowed in the recent budget resolutions of House and Senate. While I understand that this is not a hearing to consider specific legislative or fiscal proposals, allow me to note that those bills and budget assumptions are grounded in the kind of analysis I'm providing today and would go far toward the cures indicated by that diagnosis.

Let me also note that portions of this statement are drawn from testimony presented to the Committee on Economic and Educational Opportunities by former Sec-

retaries Lamar Alexander and Bill Bennett in late January. I assisted them with its preparation and have their permission to borrow from it.

WHAT'S GONE WRONG

The federal education apparatus illustrates what has gone awry in Washington over the past several decades. The national government has become meddlesome, intrusive and bullying. It now impedes more than it fosters. Much of what it mandates or encourages is misguided. It keeps people from doing what they know is right for their children, communities and states. It substitutes the rules of distant bureaucrats for the on-site knowledge of parents and teachers. And, particularly in the last several years, it has begun to lift from our communities the sense that they are responsible for the renewal and reform of American education and to suggest, instead, that Washington knows best and is taking charge.

Presidents Reagan and Bush sought to reverse the stream, to put the emphasis on states and communities, to promote flexibility and choice, to forge a true partnership with the governors, to end discrimination against individuals without preferential treatment for any group, and to halt Washington's growing regulatory apparatus. But every such effort was rebuffed by the Democratic Congress, now aided and abetted by the Clinton administration, which has pressed relentlessly in the opposite direction, encouraged in this endeavor by education's myriad special interest groups.

If anyone thinks I exaggerate, please read the full texts of Goals 2000 and "H.R. 6", the administration's two main elementary/secondary education bills, as finally enacted by the 103rd Congress. Especially when these are taken in combination, it becomes plain that their authors want to substitute decisions made in Washington for decisions made by individual households and communities. They create new governance mechanisms and regulatory apparatus at both national and state levels. They use federal funding in a deceptive way that is designed to elicit the very forms of behavior that other parts of the legislation term "voluntary". They throw obstacles onto such promising reform pathways as school choice and the private management of public schools. They transform what had been a national movement into a federal program. They strip the bi-partisan National Assessment Governing Board of much of its independence. They give federal officials sway over state and local reform plans, create a new body called the National Education Standards and Improvement Council that is not wrongly compared to a "national school board", authorize development of national standards for school spending and other inputs, and legitimize curricular guidelines such as those recently published, to widespread alarm, for U.S. and world history.

In reauthorizing the Elementary and Secondary Education Act (H.R. 6), Congress also wrote more rules concerning such hot buttons as sex education, prayer, gender equity and weapons in schools—prompting former secretary Alexander to remark that "They think we're too stupid to decide these things in our own communities."

Then there's last year's wholesale reorganization of the Office of Educational Research and Improvement, one of eight divisions of the Education Department. Though it dispenses less than $100 million a year in research funds, nearly all of which is earmarked by Congress for specific grantees, the 1994 legislation creates a cumbersome new superstructure that mimics the National Institutes of Health (which spend $11 billion annually). A wee agency that would benefit from simplicity and de-layering has instead been split into five new "institutes" whose very names evoke the "stakeholder" groups whose interests underlie this reorganization. Astride all that bureaucratic paraphernalia, along with Assistant Secretary Sharon Robinson, Secretary Dick Riley and the rest of the department hierarchy, is yet another new panel, this one called the National Educational Research Policy and Priorities Board, which recently held its first meeting. The administration put some talented people onto this board. But nearly all of them are employed by school systems or universities. Though meticulously balanced by race, gender and region, it's another producer-dominated body that will pay scant heed to the priorities and concerns of parents, employers or taxpayers.

It's that attitude—defer to the experts, keep power with the producers—that has caused many consumers of education to conclude that Uncle Sam cannot be trusted to look out for their interests. That's why the existence of the Education Department itself is now hotly contested. That adolescent agency has come to symbolize the loss of control over the schools of one's community to distant experts and officials.

The real arrogance of Washington with respect to education—the part that recalls the "disinformation" activities of the Cold War—is the pretense that nothing worrisome is really happening and that all the federal control will "help". Look at the labels pasted on the covers. Goals 2000 was called the "Educate America Act". H.R.

6 was dubbed the "Improving America's Schools Act". I don't believe Orwell could have done better, considering that the contents of these measures were developed by and for lobbyists and interest groups to whom the skills and knowledge of children are not the top priority.

Federal education policy has been moving in this direction since 1965. It took a breather, at least within the executive branch, between 1981 and 1993, but the past two years have seen the pent-up "governmentalism" of that decade unleashed upon the land. For a time, some otherwise-conservative education reformers, myself included, supposed that it was possible to have a national education reform project that would work like a true partnership and not evolve into another rule-bound federal program. The last two years have proven us wrong. In addition to Goals 2000 and H.R. 6, we have seen the executive branch give blanket endorsement to scholarships based on race; take the heat off those who would mandate "diversity" as a criterion for accreditation and thus turn political correctness into a precondition for federal aid; propose the race-norming of state assessment results; and persecute states that employ test-based standards for high school graduation. Ultimately, it is now plain, the federal government is bound to break whatever it touches in education—and waste a goodly amount of the taxpayer's money in the process. Rather than tinker around the margins, therefore, the time has come for a great and thorough change.

THE FEDERAL ROLE IN EDUCATION

The U.S. Constitution never mentions the word "education", whereas it's embedded in the constitutions of every one of the fifty states.

Yet today the Education Department alone is home to some 240 separate programs that spend, in the aggregate, nearly $500 for every student (elementary, secondary, post-secondary) in America. And that's without considering the education programs run by other agencies such as Health and Human Services (Head Start, financial aid for medical students, etc.), Labor (myriad job training schemes), the National Endowment for the Humanities, the National Science Foundation, the Defense Department, and so on. Across the government, estimates for federal education support in Fiscal 1994 totaled $68 billion in "on-budget" outlays and nearly $20 billion more in "non-federal funds generated by federal programs" (most of the latter being private capital for federally-guaranteed loans to college students).

Though one can find seeds of federal involvement with education in the Nineteenth century (including the Northwest Ordinance, the Morrill Act, and the founding of an education statistics-gathering unit just after the Civil War), the present federal role in education was predominantly shaped during the mid-1960's as part of the "Great Society" and the "War on Poverty". Most of today's federal programs and activities in education continue to reflect the purposes, priorities, assumptions and values of that era. The architects of the education programs of the Great Society were certain that the nation's education problems were fundamentally problems of shortage—and their solutions lay in augmenting the supply of education services and the access of those who had been deprived.

I am not here to quarrel with this mid-sixties reasoning. There were genuine quantity-and-access problems at the time, and it was legitimate to enlist the national government in their solution. But the world has changed in the three decades since these programs were born and these assumptions fixed in policy. The essential nature of the education problems facing the United States is altogether different today. And programs conceived for one purpose are seldom suited to another. This, I submit, is the central reason that current federal activities in the field of education are unsuitable to produce the performance improvements and efficiency gains that analysts urge, that parents, taxpayers and employers demand, and that governors, legislators and community leaders now seek from their schools.

Though "quality" has recently entered the lexicon of federal program managers and advocates, it's not what those programs were intended for or how they were designed. It's not how they spend their money or the thrust of their regulations. It's not something they have successfully induced in the past. And there's little reason to believe that their efficacy will change in the future, however many "reinvention" activities we engage in. We really shouldn't expect it to. That would be like taking a panel truck designed to deliver milk and entering it in the Indianapolis 500. It won't do well in this setting because it was not built for speed. (And it will probably get in the way of faster and more nimble vehicles and may cause them to crash.)

Let me set forth five aging assumptions that underlie most Education Department programs and activities. All five come straight from the social reform handbook of the mid-sixties. As I go, I will briefly indicate why they are ill-suited to the pressing education dilemmas of the mid-nineties.

1. The great problem of American education is that some people get more of it than other people do. Access to educational offerings and services must be expanded and underwritten, particularly for needy portions of the population (the poor, handicapped, minorities, non-English speaking, etc.) that are not receiving enough services and have in some cases been denied them. Because states and localities are not meeting these needs and cannot be trusted to do so, it's the federal government's obligation to intervene.

Today, access is virtually universal but the quality of what children have access to is mediocre, expectations are low, and results are unsatisfactory, both for those who are aided and those who are not. Federal interventions have begun to create perverse incentives (such as classifying more and more children as "disabled") and to impede bold reform efforts.

2. States and communities are stubbornly set in their ways, miserly, sometimes discriminatory, and ignorant about education research and effective practice. The federal government therefore needs to foster innovation, justice and the dissemination of knowledge.

Today, states and communities are taking the lead in trying to transform their schools, but federal programs and policies often get in their way. It's not likely that they would discriminate against their least fortunate children—but it's very likely that they want to try dramatically different ways of helping those children than federal laws, regulations and funding practices now permit. Moreover, in an age filled with CD-ROMs and on-line information services, with faxes, e-mail, cable television, conference-calling and widespread travel, state and local education agencies have ready access to knowledge and expertise, as do teachers and other school practitioners throughout the land.

3. A unified and essentially "monopolistic" public school system, regulated into uniformity and managed centrally, is the best way to distribute educational resources according to national priorities and is, accordingly, the proper focus of federal policy and programs.

This assumption goes back to the "scientific management" ideas of the 1920's and the belief that "public" schools mean schools run by government agencies. Today, however, many people conceive of public education as consisting of schools that serve the public but that may be organized and run in a thousand different ways, thus fostering innovation, competition and quality. Yet federal programs discriminate against many of these alternatives, including non-government schools, charter schools and home-schooling.

4. Redistributing resources from people, states and regions that have more to those with less is both a proper function of the national government and a way to improve education. Hence "poverty" and other indicators of "neediness" should be the primary basis for receiving federal education assistance.

Whatever one thinks about the redistributionist ethic in general, it's clear that it has perverse effects within federal education programs, such as "punishing" schools and individuals that do well and pull themselves out of ignorance and poverty. Moreover, the strings tied to the money turn into red tape, bureaucracy and regulations that stifle the types of originality that American education desperately needs.

5. Experts know best what kind of education people should receive. The professionals who "deliver" education are, therefore, Washington's primary clients, even though the resources provided to them are sent in the name of needy consumers.

Consumers now have very different ideas about education reform than do "experts", and many consumers would make different decisions about the use of resources if they had any say. The federal government's deference to "producers" is not confined to education, of course, but in this field it shores up the status quo, keeps power with the "establishment" and deters radical change. It also underwrites bureaucracy, subsidizes the very organizations that lobby it for still more money, and pumps billions of dollars each year into the bank accounts of middle class professionals.

The assumptions and priorities that I have just summarized underlie practically all of the Education Department's programs and will guide the expenditure of nearly all of the money that Congress is being asked to appropriate for federal education programs in fiscal 1996. It will be said—indeed is already being said before committees of this Congress—that the well-being of children is at stake, that equity, justice and decency demand a continuation of these programs and expenditures, that our schools have somehow turned the quality corner and are now on the path to excellence, and that maintaining the present federal role will propel them down that path at a faster clip. That is the Clinton administration's view and it is shared by the education establishment and pressed by the innumerable Washington lobbyists employed by the hundreds of organizations that comprise that establishment.

The only problem is that it isn't true. The fact is that nearly everything the Education Department does is based on yesterday's out-dated assumptions, on pious but unproven hopes, on dubious claims, and on reasoning that most serious analysts find faulty. The fact is that there is no evidence to support the view that the average American child will learn more, or that the typical American school will become more productive, or that the quality of American education as a whole will improve one iota, as a result of continuing the federal role as it exists today.

THE EDUCATION DEPARTMENT

The Cabinet-level Education Department is fifteen years old this month. I worked there myself from 1985 to 1988.

A bill to carve the present Department from the then-Department of Health, Education and Welfare was sent to Congress by President Jimmy Carter in fulfillment of a bargain that he, as a candidate, had struck with the National Education Association during the 1976 election: a separate department in return for the N.E.A.'s campaign support. (The details of this pact—and Vice President Mondale's insistence that Carter honor his end of it—are recounted in chapter 7 of Governing America, former H.E.W. Secretary Joseph A. Califano, Jr.'s memoir of the Carter administration. Simon & Schuster, 1981.) But the proposal was not universally popular, even among Democrats. Opponents included American Federation of Teachers president Albert Shanker, Harvard professor David Riesman, The New York Times, The Washington Post and Senator Daniel P. Moynihan.

Almost all of the present Education Department was cut from the former Department of Health, Education and Welfare. President Carter had proposed a more comprehensive assemblage including Head Start, school breakfast and lunch programs, schools serving Native Americans and U.S. military dependents, etc. But the resistance from constituencies of such programs was intense.

In its first year (FY 1980), the Education Department housed 150 programs funded at $14 billion. Today, as noted above, it contains almost 250 separately-authorized programs and employs nearly 5000 persons. Its FY '95 appropriation totals $31.5 billion, including approximately $12 billion for elementary/secondary/vocational education, $6 billion for special education and rehabilitative services, and $13 billion for postsecondary education (primarily college student loans and grants).

THE REINVENTION ILLUSION

If we accept the basic assumptions of the mid-sixties about what are the problems in American education and what sorts of things the federal government should be doing to solve them, there's no doubt that the Education Department could be made more efficient in carrying out its assignments. After all, today it's one of the least efficient organizations in the world.

With that in mind, I read with interest a recent account of a bureaucracy-reduction activity that has been underway at the Department for the past eighteen months, known as the "low-hanging apples" program. The cute name refers to cumbersome rules and procedures that create delays, impediments and costs so obvious and presumably so simple to end that doing something about them is analogized to plucking the fruit that one does not even need a ladder to reach.

The account I read reported that 95 such "apples" had been spotted. Four examples were given:

* It's no longer necessary to punch in an accounting code at the Education Department for every copy you make on the Xerox machine.

* Employees can now initiate the process of getting agency documents printed by the G.P.O. by using one form rather than two.

* Because today's fax machines automatically log what they've transmitted, it's no longer necessary for Department staffers to maintain manual logs of facsimile transmissions.

* When it comes time to reward employees under the General Performance Appraisal System, several individuals can be named on a single form rather than submitting a separate one for each person.

Of course those are bureaucratic improvements of a minor sort. From the standpoint of improving American education, however, on a scale of one to a hundred they may move the nation from 3.001 to 3.002. And if one believes that greater efficiency at the Education Department may make life more difficult for those trying to improve American education, the slight movement may be in the opposite direction.

What about larger-scale reinvention efforts? Some, on their face, seem to move in a sound direction. The administration deserves credit, for example, for proposing to eliminate or consolidate several dozen programs. One can scarcely quarrel with its

goal of simplifying and expediting the grant-making process (one of the Education Department's most dysfunctional bureaucracies). If there's to be federal "technical assistance", I do not doubt that it would be more efficient to deliver it through a smaller number of centers with broader-gauged functions. And so forth. But when it comes to education, the National Performance Review is fundamentally flawed by virtue of the fact that it rests on erroneous assumptions about what the federal government ought to be doing in this domain. It partakes of the mid-sixties diagnosis of what's wrong and what should be done about it. And in that diagnosis and proposed cure it is fundamentally wrong and thus the treatment could leave the patient in even worse shape. Making it more efficient in pursuing misguided ends seems to me a wholly dubious undertaking, like giving a sharper scalpel to that surgeon who amputated the wrong foot.

A DIFFERENT PHILOSOPHY

What should we do instead? I suggest that the necessary overhaul of the federal role should be based on four clear principles or assumptions:

First, education in America is the constitutional responsibility of the states, the social responsibility of communities, and the moral responsibility of families.

Second, except when the civil rights of individuals are menaced, the federal government should never impede the capacity of families, communities and states to decide how best to provide education to their children, and should never substitute its judgment for theirs.

Third, goals, standards, assessments, the dissemination of information and ideas, and the encouragement of bold innovation are legitimate leadership and "bully pulpit" activities of national officials, but must always be truly voluntary on the part of states and communities. Nor should federal funds be used as "carrots" or "sticks" in ways that effectively diminish state and local control.

Fourth, insofar as the federal government is engaged at all in the field of education, it should dedicate itself to (a) fostering family responsibility and local control, (b) assisting states to fulfill their responsibilities as they see fit, (c) providing sound statistics, prompt and accurate assessment results and other information, and (d) safeguarding individuals from illegal discrimination.

COMPREHENSIVE DEVOLUTION

What do those principles imply by way of programs and policies? Here we approach the heart of the matter. It's my view that Congress should take every single activity currently housed in the Department of Education and do one of three things with it: (a) send it home to the states and communities; (b) entrust it to another federal agency that is suited to conduct it in harmony with related activities; or (c) abolish it on grounds that the federal government can no longer afford to spend money on programs that have outlived their usefulness or that can be handled satisfactorily by others. I won't try here to fill in every detail or answer each question that might be asked about this far-reaching recommendation, but the examples that follow indicate its main features.

Sending responsibility home

* Virtually all major programs assisting elementary/secondary education should be combined into one or two "block grants" and returned to the states and communities. There may or may not be a net reduction in federal aid from this consolidation, depending on what share of federal budget-balancing must be borne by education. Whatever the sums, the block grants through which they flow should be completely flexible as to what they can be used for. (Here, as in welfare, some governors have indicated a willingness to receive less money if it comes with no strings.) These decisions belong to communities and states, to families and individual schools, and the federal government ought not tell them what they can and cannot do. There should be no deterrents to such innovations as charter schools, vouchers and private management, should states or communities wish to pursue those approaches. The federal government should no longer define legitimate education reform, nor should states and communities have to submit plans to Washington for approval.

The core of the block grant(s) should be programs currently found under the headings of "education reform" (including Goals 2000), school improvement, education for the disadvantaged, bilingual education, and vocational and adult education—approximately $10 billion in all. (If one mistrusts block grants on grounds that they will inevitably attract "strings" and conditions in the future, an alternative is to devise a resource base transfer whereby some federal tax is reduced by an amount equivalent to the federal programs that would then be voided, thus leaving it to state and communities to raise and deploy these revenues as they see fit.)

* Another block grant to the states would combine higher education programs other than student aid. (The latter need overhauling, too, but that's a complicated business. Until they can be properly transformed, I'd keep them operating, transferred to another suitable agency.)

* Special education and rehabilitation services warrant consultation with the governors and others. The soon-to-be-introduced bills keep those programs intact for the time being, mindful that the I.D.E.A. program is, in any case, due for reauthorization. This is an aid program, to be sure, but it is also the largest "unfunded" education mandate, i.e. federal regulations require the expenditure by states and localities of many billions more than the federal aid provided. And it is deeply entangled with civil rights enforcement.

Transfers

* All civil rights enforcement in the field of education should move to the Justice Department, with the admonition that this important federal function be vigorously carried out when discrimination against individuals is involved, but not be used as a tool for granting or withholding rights and benefits on the basis of group membership.

* The gathering, analysis and reporting of education statistics and the conduct of the National Assessment of Educational Progress should probably be transferred to the Census Bureau (with the latter activity remaining under the policy direction of the independent National Assessment Governing Board.)

* Aid for college students and special education programs should, at least for the present, be returned to the management of what is now the Department of Health and Human Services. (Another intriguing proposal before the Congress would consolidate these and other education programs into the Labor Department. Yet another idea would send student loans to the Treasury Department so that the I.R.S. can collect what is owed the government. Perhaps the prospect of a stay in Leavenworth would finally reduce the multi-billion dollar loan default problem.)

* Indian education programs would be transferred to the Interior Department.

Abolition

At least fifty of the Education Department's programs have entirely outlived their usefulness, or support activities that the federal government could beneficially stop subsidizing, or provide marginal aid for activities that are fundamentally the responsibility of others but have been maintained as federal "categorical" programs due to the strength of special interest lobbies. Such programs should be abolished or "de-funded" and the savings returned to federal taxpayers. (I estimate these at $2 to 3 billion annually, i.e. as much as $15 billion over five years.) Or they could be devoted to other worthy national purposes, within the field of education or beyond. Illustrative candidates for abolition include federal technical assistance centers, regional "educational laboratories", library support programs, literacy programs for prisoners, women's educational equity, law school clinical experience, Olympic scholarships and "star schools". On the "technical assistance" front alone, the Department's Inspector General found 734 separate centers operating in Fiscal '91 at a total federal cost of about $300 million.

Savings would also result from dismantling the regulatory infrastructure, including most of the costs of Education Department management (about $444 million) and the National Education Standards and Improvement Council.

STRUCTURAL IMPLICATIONS

Inasmuch as adoption of these substantive recommendations for the federal role would leave the Department of Education with nothing to do, there would be no need to retain it. But it's important to think of its termination as the logical conclusion of a total restructuring of the federal role in education, not as a label change or symbolic beheading. In the days before the Department of Education was created, the federal government made almost as much education mischief as it does today. Those programs, regulations and red tape were simply housed in another agency. We'll gain little if we retain the programs and red tape while tacking a different name over the door of the building in which they're housed. Indeed, such a shift could even be harmful to the extent that it "hides" those activities in less visible locations. In my view, the way to think about the Education Department is first in terms of what it does, then in terms of its structure and status.

But because I believe that every one of the Department's activities that are worth preserving in some form could better be handled elsewhere, I see no need for a separate federal education agency of any kind.

My purpose is not to reduce the attention that the nation pays to education. Indeed, there's never been a time in our history when education was more impor-

tant—or more in need of a complete makeover. Whether one is concerned with developing virtue in the young, preparing tomorrow's adults for life in the information age, widening the shared knowledge base of a diverse population, strengthening our economic competitiveness or enabling poor people to move from the back of the line to the front, we have few assets of greater value than effective education.

"National leadership" can be helpful in focusing people on problems and opportunities. We should look to the President to ensure that the national project of educational renewal continues apace. But true leadership means energizing people and communities to change, not shackling them with mandates and regulations—and calling it leadership. We do not need a raft of federal programs. We do not need a giant bureaucracy. We do not need a federal department. What we need is a national movement. I believe that the prospects for such a movement—and for real educational renewal in America—will be far brighter when the Congress signals unmistakably and irrevocably that responsibility rests with teachers and parents, with communities and states, not with federal bureaucrats.

Reversing the flow of this river is no small undertaking. But it would do immeasurable good for our children, our schools, our communities and our future.

Thank you for your attention.

Mr. HORN. Thank you very much, that was a very helpful summary. We will now hear from William Hansen, the Executive Director of the Education Finance Council. Please explain a little bit about the work of the council, and then proceed with your summary.

Mr. HANSEN. Mr. Chairman, I'm here, as a former Assistant Secretary for Management and Budget. I wore both hats that Don Wurtz and Mike Smith currently wear, who testified earlier. That's, I guess, one reason I have such a big head, is from wearing both of those hats in the previous administration. But most of my comments today are a reflection of my life at the Department.

I would like to concur with what Chester has laid out regarding the major dysfunction at the Department and the fact that the programs, is the way in which they're delivered, is the major problem, and not necessarily whether this argument of whether there should be a Department of Education is the issue. I do feel that what we heard a little bit earlier was somewhat a business-as-usual approach to Federal bureaucracy and Federal monopoly over the issues.

I would like to address most of my comments to some of the points we heard earlier from the Department's testimony. I do think it's important to keep in mind, when the Under Secretary laid out five reasons not to abolish the Department, he said because of the student aid programs; the Title I programs; the programs for the disabled; the evaluation of programs; and having a bully pulpit.

All of those things could occur and did occur before the Department of Education ever came into existence. The student aid programs; the Title I programs, the programs for the disabled; the old NIE; other activities were in existence before the Department of Education was created. And I think that whatever the Congress determines the appropriate Federal role in education is, and what those programs are to be and what the delivery mechanism would be, could obviously be handled at other agencies in a different manner.

Some of the issues that were laid out about the bully pulpit—I think really starts with the President. I will be very honest. Back in 1989, when we were working on getting the 50 Governors together with the education summit at that time, to get the goals es-

tablished, that was done out of the Bush White House. The Department of Education was a helpful player in it, but it was driven by the President and driven by his domestic policy office. And that is where the leadership came from.

That is where the leadership used to come from, when we're talking about education nationally. Also, we heard that the Department's small budget to ratio staff is about 6 to 1. I think this also is a bit simplistic. The Department's programs are by nature large formula type programs. That's what the Chapter 1 program is; that's what the vocational education State grant program is; the special education State grant program is. And the more complicated programs in the student aid arena rely upon about 50,000 private sector employees around the country to make those student loan programs work.

So it's not quite as simple as that. Also, the fact that there is talk about the number of employees going down from 7,500 to 5,000—that was done in the early Reagan years. Chester laid out the block grant theory. Back in 1981, when Congress, in the reconciliation bill, abolished 42 categorical elementary and secondary programs, and traded them for the Chapter 2 block grant program, which we have today, we were able to downsize several hundred employees at the Department of Education, as a result of the creation of that block grant.

I understand today's block grant program is handled by six employees at the Department, instead of requiring hundreds to administer 42 categorical programs. One of the problems we've had over the last 15 years, since the Department was created, is you've got this one-stop shopping focus on the Department. All of those programs that were block granted have now been resurrected and recreated or reincarnated in another area. And so we had 130 programs in the Department back in 1981. Today we've got about 250.

You've got program layer after layer after layer, plopped on top of one another, without much thought given to how best the Federal role in education could be delivered. Also, there was a notion stated that if you sent the Department of Education's programs back to other Cabinet agencies, you might actually need more staff to administer the Department. I think that's a bunch of bunk.

Very clearly, the Department is broken down in two key areas. You have the program offices that deliver the programs, and you've also got the staff—the service offices, that provide activities from grants and contracts to general counsel to legislative affairs. Those offices and most of these activities and most of the proposals out there would transfer probably 90 percent of the programs back either to HHS or over at the Department of Labor.

You, in fact, would probably entertain broad efficiencies in those service offices, because you'd be able to rely upon the service offices that are already in place at those other two agencies. The program office is also a place where you should be able to achieve great savings. Just as I mentioned, with the Chapter 2 block grant creation back in 1981, we changed the way in which those programs were delivered.

We saved several hundred staff as a result. And that same activity should be embraced today. The Department talks about eliminating or consolidating 68 programs, yet their budget submission

for more FTE represents no reflection whatsoever of any efficiencies at all in having those 68 fewer programs to administer.

Also, the structure of the Department is very important. You alluded to the Deputy Secretary-Under Secretary notion. Back in 1981, when Ronald Reagan first came to office, there were 47 Deputy Assistant Secretaries in this new conglomeration at the Department.

We got rid of 36 of them almost overnight. So there was only 11 Deputy Assistant Secretaries after the first year in the Reagan administration. We likewise got rid of five Assistant Secretary positions at the time. There has been some creep and growth in those two areas since then.

Also the Under Secretary had a couple of charts in his testimony about the defaults going up and down, and I can actually answer some of these in the question and answer period. Most of the improvements started, as you'll see from the charts, on chart No. 7, back in 1990 and 1991, as a result of two things.

It was congressional action, because of some of the problems that they saw, and also administrative actions that were put into place during the Bush administration years. And you'll see all of those growth curves started going the other direction back in 1991. Also, Mr. Smith's last chart, on the back page here, about a proposed disestablishment of the Department of Education, makes it look like it's going to be very complicated, with functions going elsewhere.

The subcommittee should be aware, there are already 300 other Federal programs scattered throughout the Federal Government, to the tune of $35 billion, that are already housed at these agencies and other agencies.

And most of, I think, the two proposals that we've had laid out before us with Mr. Gunderson and also the one that Chester referred to that will be coming out tomorrow, would shift most of the department's functions to either HHS or to Labor. So you're not going to have this massive scattering, as alluded to on that chart.

Also, I just would like to conclude in talking about cutting regulations. I think that what the Department said they did today, in cutting 30 percent of the regulations, is important. But I'd say quality is probably better than quantity.

The quality of the regulations that they're getting rid of is more important than the quantity. And the Department has been very much about putting more burdensome regulations and more meddlesome regulations over the last 2 years, both at the higher education level and at the K through 12 level. With that, Mr. Chairman, I close my statement.

[The prepared statement of Mr. Hansen follows:]

PREPARED STATEMENT OF WILLIAM D. HANSEN, EXECUTIVE DIRECTOR OF THE EDUCATION FINANCE COUNSEL

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to appear before you today to testify on reorganizing the Department of Education. My comments today reflect my experiences during the Reagan and Bush Administrations as well as my observations related to the direction that I believe federal education policy should be headed.

As the Subcommittee carries out the heavy issues of departmental oversight and management review, it is important to understand the broader context of the Department's mission and the appropriate federal role in education. By first determin-

ing the appropriate federal role in education, answering questions relating to cost savings, program consolidation and elimination, and management improvements may be more appropriately addressed.

The development of a coherent federal education policy requires that budget and program priorities are founded upon a set of principles. For example, during the Bush Administration, Secretary Lamar Alexander and President Bush continually reached out to our nation's governors to help families and communities. However, this was a national effort not a federal effort. I believe that federal government should continue to play a role in ensuring access to education and to promote educational excellence. This role should be kept in check with the 10th amendment to the U.S. Constitution and should also ensure that parents, communities, and States are responsible for providing for the education of our children.

It is with these thoughts in mind that I will address several areas relevant to the Department of Education today:

- the Federal Role in Education;
- Proposals to Dismantle the Department of Education;
- the Funding History of the Department;
- the Size and Scope of the Department; and,
- Action Steps to be Taken Now.

FEDERAL ROLE IN EDUCATION

Mr. Chairman, the federal contribution to education today consists of only six percent of the total elementary and secondary dollars spent nationwide. It is in the context of this limited contribution that the appropriate federal role in support of elementary and secondary education should be established. Six percent of total elementary and secondary spending nationwide can and should be directed toward ensuring equal access and promoting educational excellence. Such limited funding cannot and should not be represented as a substitute for the local resources available and should not be provided to states in a manner that undermines the proper administration of the 94 percent of resources provided at the state and local level.

My experience suggests that true local control of education priorities at the elementary and secondary level promotes local support for education and parental involvement. Local support will become increasingly important in the coming years. Parental involvement, in my view, is an absolute necessity if the problems in our schools are to be addressed. Unfortunately, many of the federal initiatives of the past several years appear to run contrary to these principles.

Two former Secretaries of Education, Lamar Alexander and William Bennett, recently called for the return of control of education to states, school boards, and parents. In their report entitled, "Local Options," the Secretaries suggest that literally dozens of federal programs should vanish and with those resources being available for federal tax cuts or through an expanded version of the Chapter 2 program to states and communities to do with as they judge best.

My experience in managing programs and personnel at the Department of Education suggests that the benefits derived from dozens of the federal elementary and secondary programs may be outweighed by the administrative burdens associated with administering those programs. For example, a 1991 survey of Ohio school districts determined that each school district in the state was required to complete 330 reports and forms, of which 157 were submissions to the state, and 173 were federally required. This study suggested that the federal government was responsible for 55 percent of the paperwork burden while federal funds accounted for only six percent of the resources available to the school district.

Secretaries Alexander and Bennett recommended that the guiding principles for federal education programs should be choice, deregulation, innovation, accountability, and serious assessment. I believe that if the Department of Education adopted these principles as a standard by which to review existing programs, many of the programs would be found in need of repeal or substantial revision.

PROPOSALS TO DISMANTLE THE DEPARTMENT OF EDUCATION

The call for change at the Department of Education has also come from Congress and its leaders. Since last November, the Senate Majority Leader, the Speaker of the House, and many Committee Chairmen have also called for the abolition or consolidation of the Department of Education. It is anticipated that numerous bills will be introduced shortly to achieve these objectives. Proposals have varied from abolition to dismantling the agency and transferring or consolidating functions with other cabinet agencies.

A member of this Committee, Mr. Scarborough from Florida, has been leading the freshman leadership effort to develop a bill to work toward sending education back

to parents and local officials. Mr. Scarborough has stated, "Obviously, the future of our economy and further economic growth depends on (reforming education) . . . if the federal government would retreat from this area, allow parents, teachers and students who want to take control of the academic agenda, this country would be better off."

Alternatively, Mr. Gunderson, a senior member of the Economic and Educational Opportunities Committee, has joined Chairman Goodling in calling for the Education and Labor Departments to be merged. Upon announcing the outline for their bill, Mr. Gunderson stated that, "As America plans for the challenges of the global economy, and the information and technological revolution that goes along with it, the federal government clearly will play an important role in education and employment."

Such efforts to achieve the appropriate federal role in education should be pursued vigorously by this Committee. However, Congress should oppose any effort to simply change the name on the door of the Department. Transferring functions and shifting duplicative, intrusive, and inefficient programs elsewhere will get us nowhere. Rather, Congress should start with a clean slate and determine what the appropriate federal role should be in education, and determine how to best address targeted needs, and develop a delivery mechanism that best serves families and taxpayers. Reforms such as block grants to states or schools, tax cuts, vouchers or scholarships to families, and functional swaps between the federal and state governments would reduce bureaucracy, regulations, and federal control of education.

FUNDING HISTORY OF THE DEPARTMENT OF EDUCATION

The current appropriation for the Department totals nearly $33 billion which funds 240 categorical programs. The Department's first budget year as a cabinet agency was FY 1980. In 1980, the budget was just over $14 billion, funding about 150 programs. The Department's budget has grown over 50 percent in real dollars since its creation. This expansion of programs has led to obvious duplication and increased federal intrusion at the state and local levels.

Since 1980, more than $350 billion have been appropriated to carry out the Department's programs. Of course, there has been some good accomplished with these funds. Millions of disadvantaged youth have received Chapter 1 services, disabled youngsters have been given opportunities they may not have known thirty years ago, and millions of students have had a postsecondary education made more affordable. However, any success could have been achieved whether education programs were housed at ED, HHS, Labor, or some other federal office. For example, when P.L. 94-142 was enacted in the early 1970's, it was housed at the old HEW. Clearly, this special education law has made a positive difference in the lives of millions of children and in society. Earlier this century, over 90,000 disabled children were institutionalized. Today, only 6,000 disabled children live in such circumstances. The bottom line is this, Congress and the American public demanded an appropriate education for handicapped youngsters and much success has been realized as a result of this law. I am convinced that these same results would have come to pass regardless of which cabinet agency this program was administered by. It was the law and the commitment by families and society that brought about the changes we have witnessed, not a specific cabinet agency.

Notwithstanding the expenditure of these monies, public confidence in America's education system appears to be close to an all time low. Parents and the public generally question whether the federal mandates in programs in the education area are producing the results they desire for their children. Given that the concept of an aggressive, expansive federal leadership role has been tested over the past decade, I believe it is time to give state and local administrators, and even more importantly families, the leadership opportunity.

We as taxpayers, and the Members of this Subcommittee, should ask tough questions regarding each of the federal education programs. Are students performing as well today as their parents did? Are we rewarding dependency and mediocrity? How can we reward quality and excellence? How can parents be given more control and responsibility over local education? Is the public getting its money's worth? I believe that many of the current programs fail to positively address the standards reflected in these questions.

As I suggested earlier, the Congress should consider starting over with a clean slate in determining which programs and necessary appropriations will be required to accomplish the Department's mission. Congressman Bill Goodling, Chairman of the Economic and Educational Opportunities Committee, said recently that he hopes that the "term 'reauthorization' be stricken from the dictionary . . . We shouldn't assume programs are going to continue year after year, but intensively examine

them to make sure they are still needed and achieving their purpose. Similarly, I would suggest adding sunsets to some programs, laws and regulations." I wholeheartedly endorse Mr. Goodling's suggestions.

In my view, there has been next to little accountability for results to the taxpayer in return for their $350 billion investment in the Department of Education during the last 15 years. Evidence suggests that local governmental control and responsibility is undermined by federal requirements, and paperwork preoccupies state and local education authorities. A much simpler delivery system to states and local agencies could be implemented without federal dictates and with continued receipt of federal funds simply contingent on the recipient showing evidence that learning is improving.

SIZE AND SCOPE OF THE DEPARTMENT

Between 1981 and 1992, there were numerous legislative and administrative initiatives to help mold the mission of this new cabinet agency. In the early 1980's a major consolidation of 42 elementary and secondary programs took place which resulted in the creation of the Chapter 2 Block Grant. During that same time period, the student loan collection activities were privatized. Although not termed "reinventing government" the Department was downsized from 7,500 employees in 1980 to an average of about 4,500 employees during the late 80's and early 90's. At the same time, the number of programs authorized and funded by Congress grew from 132 to 240. Clearly, more was done with less.

We are now told the Department of Education is once again reinventing itself. (Given the high-level of parental and general frustration with education quality, it is appropriate for this Subcommittee to provide the Department with a clear indication of the direction this reinvention should take. Congress should examine several areas of recent activities at the Department of Education and set clear priorities for the Department. The fact that the Department already has over 5,100 employees and plans to hire 600 employees to manage the direct student loan program is cause for concern about the Department's mission in a time of government-wide streamlining and privatization.

Since the establishment of the Department of Education under President Carter, Presidents of both political parties have submitted budget requests to zero-fund dozens of education programs because they have largely or completely achieved their original intended purpose, were duplicative of other programs, or could be supported by other funding sources. For example, in President Bush's final budget, he called for the elimination of 39 education programs that fell into the categories just mentioned. President Clinton, both in his budget submission last year and as part of the National Performance Review recommended that 34 programs be eliminated—almost identical to a list that President Bush developed. Last year, Congress did eliminate 12 of these programs. As a starting point for finding savings and program simplification in the FY 1995 and FY 1996 budgets, Congress should first look to the remaining programs in these previously submitted recommendations and to President Clinton's latest budget proposal which calls for 15 program terminations in FY 1995 (savings $122.7 million), 21 program terminations in FY 1996 (savings $504.1 million), five program phase-outs (savings $120.9 million), and 27 program consolidations (added cost $46 million).

The current FY95 rescissions debate has provided additional ideas and recommendations for immediate cost savings. The process for FY96 cost savings will be key as the authorizing committee considers major program overhauls and block grants and as the appropriations and budget committees consider opportunities to reduce the massive budget deficit.

The Subcommittee should also give serious analysis to the Department's Salaries and Expenses Accounts. A primary question the Department should be asked to address is why are they asking for a $13 million increase in their S&E account when over 440 employees have opted for the retirement buy-out (8% of total personnel). With the resulting smaller FTE covered by the S&E account (the hundreds of new staff hired this year to manage the direct loan program are paid out of a separate direct loan S&E account) and the anticipated savings of downsizing the Department because of the President's call to terminate or consolidate 68 programs, it would be expected that the Department would be proposing a substantial reduction in their S&E account. Other areas within these accounts that should be reduced are the two dozen federal advisory panels. Similarly, on another administrative account, as I referenced earlier, Chairman Goodling's bill to cap the direct loan program at year two school participants calls for a $50 million reduction in the FY 1995 budget authority for the direct loan program administration account (a reduction from $345 to $295 million and additional reductions in future years). It should be noted that

the direct loan administrative account falls under the mandatory account and the other administrative accounts fall under the discretionary account.

Former Education Secretary Lamar Alexander has written that there are five defining characteristics of a problem-laden central government agency: it's centralized, uniform, governmental, monopolistic, and no-fault. The opposite of each of these characteristics offers citizens and managers clear direction: decentralization, diversity, privatization, competition, and high morals. Attached to my statement is a one page table which lays out one example of the contradictions inherent in the Clinton Administration's zeal in pushing for a big government take over of the student loan program.

The Department of Education has received a waiver from the President's Executive Order on downsizing their personnel rolls. They have split up the high-risk student aid management responsibilities for the benefit of political appointees, not based on responsible management principles. They have created new layers of bureaucracy and new federal panels. They have crafted expansive new regulations and added new federal mandates. This Subcommittee should exercise its proper oversight authority in reviewing such management practices at the Department of Education.

ACTION STEPS TO BE TAKEN NOW

First, the Department has taken on a high handed regulatory effort with States, school districts, and college campuses that should be reined in. One of the best ways that Congress can curtail the Department's zeal to overregulate is by abolishing or amending burdensome programs and using its oversight authority as a means for providing a proper check and balance.

Second, the Congress, in particular the authorizing committees, should deauthorize all unfunded programs. This initiative would also assist on the deregulation front and prevent unnecessary budget battles.

Third, the Congress should cap or phase-out the Direct Student Loan Program. This new program runs directly counter to the principles outlined in the National Performance Review. Instead of streamlining the federal bureaucracy, direct lending would grow the Department of Education as President Clinton has exempted the Department from his Executive Order on downsizing government which has paved the way for 600 new bureaucrats to join the federal workforce. Rather than support market driven solutions that focus on customer service, direct lending would wipe out tailored state and competing private-sector organizations that focus on serving the customer, in favor of a Washington monolith.

Of particular concern to this Subcommittee should be the fact that the 1993 Student Loan Reform Act created an unprecedented $2.5 billion administrative entitlement fund for the implementation of the direct loan program. Unlike nearly all other government administrative funds, those associated with ED's direct government loan program are not subject to annual appropriations and review. Chairman of the Economic and Educational Opportunities Committee, Bill Goodling has introduced a bill (H.R. 530) to cap the direct loan program which would also improve congressional oversight of the billions of dollars that the Department will spend to administer direct loans. This bill has received strong bipartisan support as it will also improve the integrity of the direct loan program. Also, Congressmen Istook, Porter, Kasich, Boehner and others have introduced H.R. 1501 which would repeal the Direct Loan program and look for increased privatization.

Fourth, Congress may wish to consider major program swaps with States to better focus the federal role and to correct unfunded mandates that Congress has created for States and communities. For example, the Individuals with Disabilities Act (IDEA) calls for a forty percent federal share in educating youths with disabilities but the federal contribution is only about seven percent today. If all other elementary and secondary programs were turned back to the States and the $10 billion funding was shifted to the IDEA, this would meet the federal mandate of IDEA and increase local flexibility in all other elementary and secondary education programs.

Fifth, block granting duplicative and burdensome programs will achieve many positive results locally. Specifically, block grants allow for innovation, less paperwork, fewer regulations, simpler administration and delivery of funds, and decentralizes decisionmaking.

Lastly, the Department should downsize itself now. The Department should work with Congress to restructure itself in light of anticipated changes that the authorizing Committee is considering (ie. block grants, program eliminations, and new reforms). The President's waiver of his Executive Order on freezing hiring should be removed and a freeze of new hiring should be instituted.

CONCLUSION

As the Subcommittee reviews areas for management efficiencies and cost savings, it is important that the current budget environment be taken into consideration. The perpetuation of the deficit and our growing national debt is anti-family, anti-child, and anti-education. Every American child in school today already owes $18,000 as his or her share of the national debt. Senator Tom Harkin said recently that, "It's time we pass on to our kids more opportunity, not more debt." I agree with that statement.

How that opportunity is afforded to children and families will be central to your deliberations about the federal role in education and the future of the Department of Education. For those activities not turned over to the states, communities, and families, they should be redesigned to ensure excellence, choice, accountability, flexibility, efficiency, and a reliance upon private market driven solutions. This Subcommittee and this Congress have a unique opportunity to improve the quality of education as it reviews the Department as a whole and every individual categorical program within the Department.

Mr. Chairman, thank you for the opportunity to appear before the Subcommittee. I will be happy to respond to any questions you or Subcommittee Members may have.

WHICH DIRECTION FOR AMERICA'S STUDENT LOAN PROGRAMS?

Reinventing Government vs. New Federal Bureaucracy

The Clinton Administration's plan to replace the privately funded and administered student loan programs with public funding and a new federal bureaucracy contrasts sharply with its stated goal of "reinventing government."

Reinventing Government: What the Administration says*	Direct Government Lending: What the Administration does
"Streamline bureaucracy by 252,000"	Hires hundreds of new bureaucrats at the Department of Education
"Steer more, row less"	Institutes a federal takeover of the program's funding and management
"Delegate authority and responsibility"	Issue top-down mandates and rules for students and colleges
"Replace regulations with incentives"	Burdens colleges with more regulations and eliminates performance incentives
"Develop budget based outcomes"	Introduces open-ended budgets based on political objectives
"Expose federal operations to competition"	Eliminates private sector competition in the student loan industry
"Search for market, not administrative solutions"	Abolishes the role of states and the private sector in student credit programs
"Measure our success by customer satisfaction"	Replaces competing local, private customer-service organizations with one federal bureaucracy
"Simplify employer wage reporting"	Forces the Internal Revenue Service to collect student loans and impose new wage reporting burdens

* Direct quotes from the Report of the National Performance Review, "Creating a Government That Works Better and Costs Less"

Mr. HORN. Well, we thank you very much. Both of you have written very well on this subject, and we're aware of those writings. You've done a rather succinct summary of your feelings on it. The U.S. Constitution never really mentions the word education, as we all know. On the other hand, there wasn't much public education at the time of the U.S. Constitution. But every State constitution does mention education. If we had to recreate the founding fathers and they saw what is taking place in America, Dr. Finn, do you think they'd agree with your approach to this, or would they be advocating a Cabinet department in education?

Not that they specify the Cabinet departments. We know they didn't. But does this come under the necessary and proper clause? How do you feel about it?

Mr. FINN. I think some of the founders were quite enthusiastic about education; Jefferson, for example. And nearly all of them were well-educated and would acknowledge that education belonged under the 10th amendment. This was one of the functions properly reserved to the States. Mr. Chairman, there is no field

that illustrates better than education the distinction between national and Federal.

You can have a national need, even a national problem, national leadership—all of which I think are legitimate in education—without the Federal Government getting involved with money, regulations, requirements, stipulations, and control. I do believe we have a national need for educational improvement. Lamar Alexander, former Secretary of Education, says of the Goals 2000 program last year, and of the Clinton administration, that they took a nationwide crusade and turned it into a Federal program.

There are few domains of domestic policy where this distinction applies as vividly as in education. I believe the founders knew what they were doing with respect to the 10th amendment. And I think we've been violating it in a substantial fashion, and in a big way for about the last 30 years in the field of education.

Mr. HORN. Well, as I gather it, you're saying the Department of Education really doesn't perform a useful service. And if we need a bully pulpit, that the President of the United States or one of his advisors be the person on the bully pulpit.

Mr. FINN. Or Members of the Congress, or religious leaders, sports stars, media figures. There are a number of national leaders that can possibly focus the people's attention on education. They manage to focus them on trials in Los Angeles courtrooms. It seems to me that they could do as well in education. We don't need a Federal agency with 5,000 employees, $33 billion and 240 programs that the Nation's States, communities and parents are beginning to groan under the burden of.

Mr. HORN. When you look back at Secretary Bell's administration and the Gardener Commission he appointed, that certainly did shake America up, as to where its educational system was going.

Mr. FINN. Exactly. That's an excellent example.

Mr. HORN. Now, isn't that a worthy function, though, of a Secretary of Education?

Mr. FINN. Well, sir, it could as easily have been appointed at the White House. And it was an extremely useful commission. None of its members were employees of the Federal Government. The Department of Education did nothing more than provide staff work. I believe Bill Hansen was there at the time, and could speak to this. It was an important bully pulpit function, but it didn't need a Department of Education for it to happen.

Mr. HORN. Let me move to another area—competitiveness. After the Bell group and the Gardener group, one of the obvious problems we faced, in the 1970's and 1980's in particular, was that it looked like America wasn't in the ball park, in terms of the competitiveness offered by the West European industrial countries and Japan. And until a group that I think the Business Higher Education Forum gets some of the credit for this, talked President Reagan into stressing competitiveness, there really wasn't much being done at the national level to arouse people that they had to care about education.

Now, granted, school boards are elected locally; and granted people should care, and on occasion, they do care and you change a school board member or two. But again, can we just have sporadic attention to education at the national level? The President has a

lot of things to do besides go out and make bully pulpit speeches on education. Therefore, wouldn't a Secretary be of some use, to bring educational matters to his attention, in terms of how he might inspire or stimulate thinking in this area and citizen participation?

Mr. FINN. Well, sir, competitiveness remains a serious matter facing the country. You're quite right that the Business Higher Education Forum and the President paid some attention to it. It's just remarkable how little the Department of Education has anything to do with competitiveness, though, other than perhaps in the Secretary's speeches. I commend the committee's attention to other recent study.

One, another Brookings study, by Eric Hanushek and a panel of economists, in which they looked at issues facing American education in the years ahead, concluding that productivity, competitiveness, efficiency, effectiveness are exactly what we need to be worrying about. But the ways we're dealing with our education strategy—State, local and Federal—aren't getting at those matters. I'd also suggest a recent OECD examination of the U.S. economy, in which the OECD analysts last year said that the American economy is seriously undermined today by the mediocrity—that's their word—of the elementary/secondary education system.

The problems remain acute. It's just that the 4,999 employees at the department, other than the Secretary, have practically nothing to do with solving them.

Mr. HORN. Wouldn't the merger of Education and Labor, where you get a lifelong continuum of learning, theoretically, there, with job retraining, worker training, all sorts of programs—160 or so, presumably, that exist in the Federal Government—working with industry, working with the local community college, wouldn't that be a helpful way to go, to put those programs together?

Mr. FINN. I think it's got a lot of appeal. I think there are several versions that I'd love to see emerge from the committee—and I guess it will be your committee.

Mr. HORN. No, it will be Goodling's Education and Economic Opportunities Committee, the authorizing committee, that would have a lot to say on this. But you're right that this committee, in terms of restructuring would have say also.

Mr. FINN. I believe your committee will have something to do with the next stage. I think that the Gunderson Goodling proposal has a lot of appeal. I also think that the Scarborough freshman bill has a lot of appeal. They're very different approaches. And I think that the opportunity to fully explore the merits of each is something that I trust will be before the Congress in the months to come.

I believe that the combination of Education and Labor has considerable merit. On the other hand, I believe that Education has some functions that are not strictly economic, that have to do with citizenship and culture and how one grows up in a society to be an adult. And I'd hate to think of it purely in economic terms.

Mr. HORN. I now yield to the ranking minority member, Mrs. Maloney of New York.

Mrs. MALONEY. Thank you, Mr. Chairman. Both of you advocate very strongly reducing the Federal Government's role in elemen-

tary and secondary education. Should that reduced role be accompanied by reduced expenditures on education by the Federal Government?

Mr. HANSEN. I don't even think expenditures is really the important way to look at it. It's really how the moneys are given to the local districts; what the Federal intrusion is. In my written statement, there was a survey that I highlighted, from the State of Ohio back in 1991, that showed that the average local superintendent and principal in the State of Ohio had to fill out 330 forms during the school year; and that 183 of those forms were required by Federal programs. So about 55 percent of the paperwork was federally driven; yet they only get 6 percent of the money.

When Mike Smith talked about polls that show the Department of Education should not be abolished for budget savings, I'd probably be one of the people to agree with that part of the poll. I think the Department of Education should be restructured not for budget savings, but for ways in which the product and services are delivered to our Nation's schools and to our families. And it is not a budget issue; it's an issue of how best to deliver the Federal programs. There are going to be an awful lot of other opportunities for debate on the Federal budget and what the priorities should be. We have spent $350 billion at the Department of Education since its inception, and there's probably been a lot of good accomplished with that money. But I think nationally, in the aggregate, we probably are not a lot better off. And that was the goal of the Department of Education, was to help us be better off.

And I do think we need to call into question how that money is being spent. And if it's not being well spent, maybe we need to take a fresh look at whether it can be better spent locally.

Mrs. MALONEY. Would you care to comment, Mr. Finn?

Mr. FINN. Sure. I'm not primarily looking for budget savings here. I'm interested in the way American education operates, and sort of who's in charge questions. I would imagine that when the Congress gets to final budget resolutions and appropriations all domestic functions will have to bear some of the pain of deficit reduction. But my purpose is not to reduce Federal spending on education. It is to restructure the terms by which the aid is delivered, not the total quantity of aid that's delivered.

I could cite you a few programs that I believe waste their money. But I wouldn't mind recycling that money into more effective uses.

Mrs. MALONEY. Cite the programs you think are wasteful.

Mr. FINN. That I think waste money?

Mrs. MALONEY. Yes.

Mr. FINN. Well, to begin with the biggest, the Department's own evaluation of its own Chapter 1 program, 18 months ago, concluded quite bluntly—and I've got the papers in my folder and could quote—that the Chapter 1 program was not causing kids to learn more; was not working; and was not well integrated with State and local reform efforts, which is, of course, why the Clinton administration recommended changing it, which the Congress did last year for the, I believe, seventh time since the Chapter 1 program was created in 1965.

We've had seven re-creations over 30 years. And after the sixth of those, it still wasn't working in the Department's own judgment.

Now they will tell you that it's going to work fine, thank you very much, because it was reauthorized slightly differently last year. But I'm afraid I'm waiting for evidence that kids are learning more as a consequence of that program this year, because the department itself says they weren't last year.

If you'd like a micro-example, we could look at things like the regional education laboratories.

Mrs. MALONEY. Are you saying that we should cut the Chapter 1 funding?

Mr. FINN. No, ma'am. I'm suggesting that the program, as currently structured, wastes its money. I'm not suggesting that spending money on the education of poor children is a bad thing to do.

Mrs. MALONEY. Well, how would you suggest that we do it in a way that's more effective?

Mr. FINN. By trusting States, communities and parents to meet the issue.

Mrs. MALONEY. You would just block grant all the education money to the States?

Mr. FINN. The elementary/secondary money, with a few exceptions, I believe, should be block granted to States and communities, with them allowed to do with it largely as they see fit to improve the education of their children.

Mrs. MALONEY. And you would not specify the intent of Chapter 1 of focusing on poor children? You'd just let them decide. What if you had a State that—a lot of times we've created Federal guidelines because States have ignored or not addressed certain problems.

Mr. FINN. Yes, ma'am. We get to the very central question of whether we trust or don't trust States to do their job, with respect to education. It is in their constitutions; it is mostly their money. It's their leadership that gets thrown out of office by the voters if education goes badly. And I believe we need to try to trust them.

Mrs. MALONEY. You would block grant, without Federal guidelines, education moneys?

Mr. FINN. Most elementary/secondary moneys, with very few Federal guidelines, yes, I would.

Mrs. MALONEY. You testified, not in your spoken statement, but in your written statement, that the 1994 budget contains $68 billion for Federal education support, with only about half of that at the Department of Education. If you were to eliminate the Department of Education today, how much would we spend in 1996?

Mr. FINN. Well, that of course depends on what we do with the money that the Department of Education is currently spending. If we keep the money and spend it in a different way, or through a different agency, then we're not necessarily saving money. One point in my written testimony, of course, and Bill has alluded to this, is that about an equal amount of Federal education money today is spent by other agencies than the Department of Education as is spent by the Department itself.

I'm trying to distinguish between the structural and management issues here, and the budgetary issues that I realize the Congress also faces. I'd like to emphasize that I'm not here suggesting that we spend less on education. I am suggesting that we spend it very differently.

Mrs. MALONEY. What do you see as the appropriate Federal role in education?

Mr. FINN. Myself? I think I mentioned it in the testimony. We need national leadership, which does not necessarily require the Federal Government to run programs. I think there is a statistics gathering and assessment function. I have no objection to continuing Federal involvement with college student aid, though I think programs could be improved and reformed quite a lot. I have no objection to Federal involvement with civil rights and special education.

Beyond that, I think it should be a resource transferring activity that enables States and communities and parents to obtain the education that they think best for their children.

Mrs. MALONEY. OK, my time is up.

Mr. HORN. On the last question, in terms of the resource transferring activity, would you simply have Congress set a formula and then have the financial management service of the Treasury, somewhat like the office of revenue sharing that was created between 1973 and 1983, write the check?

Mr. FINN. May I defer to my colleague on the mechanism? Because I would normally defer to him in how best to do this.

Mr. HANSEN. I think you'd still keep the structure within, if it was the Department of Education or what other structure the programs were transferred to. The Chapter 2 block grant program today works very much as just a way of cutting the check or transferring the funds electronically to the State education agency. And that is where the State education agency will in turn work with the local school districts to send the money down to the local school districts.

But I think if you had a major elementary and secondary block grant program, it would work very easily under the current system at the Department of Education, in electronically getting the money out to the States.

Mr. HORN. Since we're on some of the financial questions, you noted, Mr. Hansen, that you'd explain the student loan program in the question-answer period. I'd certainly like to have you views as to what you think the problem is and what ought to be done and how we ought to collect the delinquent loans.

Mr. HANSEN. There are a couple things I'd like to address. One is, the Department talks about there being $12 billion in cost savings in their proposal to go to full, 100 percent direct lending. That number is very much an illusionary number. The Congressional Research Service came out with a paper last month that called it as such. In fact, the CRS said, "There may be a logical rationale for direct lending, but low cost is not it."

What they're trying to do is, under the credit reform rules today, the way in which the administrative costs in direct program are different and the way they're accounted for than a guaranteed program. Most of the costs in a direct loan program are in the out years, in servicing these loans. So the same amount of money would really be spent on administering these two programs over the years. But the department is trying to esoterically show that, because of the current credit reform accounting rules, they would save up to $12 billion, which is not an accurate assumption.

One other concern I have with the direct lending program in this regard is, there was earlier testimony about how 67 percent of the people in default attend proprietary schools. In the direct lending program next year, about 1,400 schools are going to be stepping up to the plate to participate in a program. I don't think it's any mistake that over half of those schools are proprietary schools, because there is no current default mechanism in the direct loan program.

You're also putting the direct lending schools as the direct loan originators of this money. So you're kind of putting the fox in charge of the chicken coop, and it really is a dangerous approach in a lot of ways. There's another table regarding the Federal policy of student lending, and over the next 20 years, if you went to full direct lending, there's a chart over at a hearing going on at the Opportunities Committee that shows that the increase in the national debt will be $350 billion over the next 20 years if you go to full direct lending.

It may look good on paper; it may sound good. But the bottom line is, the direct loan program is also going to have to rely upon the same people that are out there collecting the loans now. But it would be in a different mechanism. Instead of relying on the current structure of the program, which Mr. Wurtz, I think, probably correctly alluded to, needs to be fixed. But the way in which they want to do it, with contracting out, is probably even a more inefficient way of collecting student loans.

Now, when you contract out the collection of student loans, what you're going to get is the lowest bid. And so these contractors are going to try to do everything they can to do the minimal they can to collect those loans. And I think that contracting is not the way to go. Relying upon private, market-driven, competitive environment is the way to go to collect these loans.

Mr. HORN. To what extent was there any consideration given, when you were with the Department, as to collecting these delinquent loans back through the income tax system?

Mr. HANSEN. We actually instituted the IRS offset program back in 1989. And that's another reason, on the Department's budget tables, you see the reduction in the defaults over the last 5 years. It's been a very aggressive and a very important element in collecting student loan debts over the years. The problem I have with putting the IRS totally in control of it is that you bring about a number of problems.

No. 1, the IRS is not a loan collection agency; they're a tax collection agency. The average tax debt that they go after is about a $30,000 tax debt. The average student loan indebtedness is about $6,000. They also are not well known for servicing. Right now, when a student has a problem, they're able to call their local bank or their local servicer. If they've got a problem, they can deal with a real-life person with a real name, probably around the corner.

With the IRS involved, you're probably dealing with a 1–800 number, and the sensitivity of the IRS in meeting some students' needs in collection. Also, in the current program, you have a very helpful system of deferences and forebearances for students and borrowers that have temporary problems, that need help, rather than with a full-blown IRS involvement. You're going to lose a lot of those user-friendly type activities.

You also would have to set into motion some type of an employer withholding activity, which would require every employer to know whether their employees have outstanding student loans or not, and to have to have them collect that money as part of the withholding process. It also sets into motion a whole other set of complications.

Mr. HORN. Well, I can appreciate having a collector or a deferrer, or whatever we want to call it, which you can reach, and not just get a message on voice mail. But the taxpayers of this country are being cheated of their money, and that's what bothers me. As I remember, and Dr. Finn, you're an expert on educational history—correct me on this if I'm in error. Admiral Zacharias proposed a plan after the Second World War in the 1950's—somewhere in there—that one of the best ways to finance education was to take into account what the individual made later, after they got out of college.

And you would adjust the return and the pacing of that return of a loan money based on how the person did. It always seemed to me that made a great deal of sense. And while we say IRS doesn't fiddle with the small fry, ask that to a lot of my friends whose taxes have been audited. They've got a system there, and it seems to me that this is something that could be added to the system. If it had to be stretched out, fine, then go see your friendly regional counselor or State council or city council, and get a deferral.

But in the meantime, the clock's running, and we want the money back.

Mr. FINN. Bill's probably going to speak to the income contingent feature, because I believe there is a small program which does that today. I'd like to suggest this is probably the only topic on which Bill and I slightly disagree, and on which I agree with you, Mr. Chairman. I think, and have thought for 20 years, that the IRS should be collecting these things, and that the penalties for not repaying your student loan should be roughly equivalent to the penalties for not paying your income taxes.

Mr. HORN. Right.

Mr. FINN. And I think the fact that the IRS doesn't want to do it should not be the ultimate deciding factor.

Mr. HORN. Yes, I completely agree with you. I suggested this at I think it was the 1971 White House Conference on Youth, on whose board I served, and in the panel on education, filled with fellow university presidents. I think they were ready to carry me out of there on a rail when I said, look, the Federal Government cannot fund these things forever. You could see the handwriting on the wall in 1971.

We ought to have a way we can collect them, and do it in a simple way. I mentioned the good Admiral's thoughts, and of course they wanted to live forever on grants. Grants aren't going to be around forever; we already see that. With the rate of tuition at private schools, there's no way the Federal Government can offer grants with any real value. But there ought to be a way to collect a loan and not have a default from people who get a college education.

Mr. HANSEN. Mr. Chairman, I'd just like to point out one or two things. One is, there have been a couple of things that have been

put into place the last couple of years to help achieve a couple of your goals. One of the biggest problems we have right now is a one-size-fit-all Federal program that is out there for the Harvards and for the community colleges and also for the proprietary schools. There was a measure put into place that any school that has over a default rate of 25 percent over a 2 to 3 year period would lose their eligibility.

There are 500 such institutions right now that have had such defaults and fall into that category. The Department has, I think, eliminated less than what you could count on one hand of those schools from participating in the program. Out of the $2.4 billion in defaults, if you consider two-thirds of those are proprietary school driven, that is where the bulk of the program problem lies. Most of the normal 4-year schools have very low default rates in the single digits.

I think you could also, if Congress is the one that's created the programs and the disincentives in the program, and if Congress created allowing the private sector to do its job the best that it knows how. Banks are awfully good loan collectors. They're better than the IRS; any study will show you that. But you've got to put the right incentives in place. You've got to put the right amount of risk sharing in, and let the private sector do what it does best. They have a better track record and a more proven record than the IRS does.

But you've got to put the Federal incentives and the appropriate amount of risk in that program to make them deliver, and get the Department out of the way, which they've been in the way. The Department sets up these rules for banks right now that they have to check off all these different things to prove that they've collected a loan. And I would much rather trust the banks to do what they do best in a competitive environment than I would a Federal bureaucrat putting a list of 17 items together, saying this is what you have to do before this loan goes into default.

Mr. HORN. Yes, I wonder if we can put, at this point in the record, the form they use to make sure they have it.

Mr. HANSEN. Yes, sir.

Mr. HORN. If you'd furnish it, or the education liaison would.

[NOTE.—Due to high printing costs, the information referred to above can be found in subcommittee files.]

Mr. HORN. I'm delighted to yield to my distinguished colleague from Illinois, the vice-chairman of this illustrative subcommittee, Representative Flanagan. It's nice to see you.

Mr. FLANAGAN. And delighted I am to be here, Mr. Chairman. I apologize to you and the panel. I am the vice-chairman of the Subcommittee on the Constitution in the Judiciary Committee, where I had the chair post this afternoon. So I'm only able to come here now. And Mr. Chairman, I have a short statement that, if you would please, put in the record, I would appreciate it.

Gentlemen, I've got just one question for you, and it's an overriding question and it has to do with most of today, and I'd like to hear your candid and personal opinion on it. And I offer, by way of example, in reauthorizing the Elementary and Secondary Education Act, H.R. 6, Congress also wrote more rules pertaining to gender equity than to weapons in schools. Simply, does the Federal

Government try to emphasize disproportionate control over local schools, particularly understanding that it pays for about 6 percent of the education bill in this Nation?

And my personal bias is, 6 percent shouldn't be telling 94 percent what to do. But I'd like to hear your opinion on it, gentlemen.

Mr. FINN. Well, sir, it's a tail wagging the dog situation. And the 6 percent tail is wagging a very large part of the 94 percent dog. Lamar Alexander, former Secretary, characterizes the piece of legislation you're describing as the "we're too stupid" bill. He says they think we're too stupid to decide for ourselves what to do if our kid brings a penknife to school. They think we're too stupid to decide for ourselves, with our own school board, how second grade boys and girls should be taught about one another.

They think we're too stupid to figure out all of these other topics and issues. And that's why they passed a 1,200-page piece of legislation, full of an amazing array of things, not just program reauthorizations but also all sorts of other wrinkles in which there is suddenly to be a national policy instead of local policies. This is the clear, strong opinion of two former Secretaries of Education, both Alexander and Bennett, and it's my own.

Mr. FLANAGAN. Thank you.

Mr. HANSEN. I would agree with that. I also think that when, again, we're looking at polls that show support for the Department of Education, it does sound good. And when people also in the same poll are asked where the appropriate role of education belongs, those numbers are overwhelming at the local community and at the State level. I would also just like to point out that you could draw a parallel to how the police department is another activity that is primarily a State and local activity.

I think if we were to create a U.S. Department of Police, it would probably have some important aspects to it because you've got a lot of elements to it that the last crime bill and other people wanted to focus on. But you don't want Washington telling your local community how best to enforce the local laws and the local statutes that are on the book of codes in every small community around this country.

Mr. FLANAGAN. Gentlemen, do you think the Goals 2000 program isn't symptomatic of this problem that perhaps the three of us have identified?

Mr. FINN. Yes, sir. There were two large, onerous pieces of legislation actually passed last year, with respect to elementary/secondary education. We talked a moment ago about one of them, H.R. 6, the thing laughingly known as the "Improving America's Schools Act." But the Goals 2000, or so-called "Educate America Act" is another example of the same thing. That's the one that attempted to re-enshrine school inputs rather than results as a way to think about educational quality.

That's the one that said that Federal bureaucrats should have the final say over State and local school reform programs and designs. That's the one that said something that many people compared to a national school board should have final say over standards that are developed for curriculum around the country. The administration sees this as the centerpiece of their education reform program. But it's the very same program that I quoted Secretary

Alexander, a few minutes ago, as describing as taking a nationwide movement and turning it into a Federal program—exactly the wrong direction to be going.

Mr. FLANAGAN. Thank you, gentlemen. Thank you, Mr. Chairman.

Mr. HORN. I now yield to the ranking minority member.

Mrs. MALONEY. Very briefly, we have other panels, but I'm interested. Mr. Hansen, you testified earlier that we couldn't use the IRS because of the problems of small businesses doing the withholding. Could you elaborate, why is that a problem? And Mr. Finn, could you answer back on—you had a different opinion on this.

Mr. HANSEN. I didn't say it couldn't be done, I just outlined that as one of the issues that would need to be addressed by Congress in deciding whether that was the way to go. You could handle the repayments in a number of different ways. You could have a one-time annual payment as part of their tax return process. That would probably be a little simpler. It might create more of a burden on your average 24 or 25 year-old person out there coming up with.

Some students have payments to the tune of $200 or $300 a month, and it's easier for them to make monthly payments than it is to wait for one big payment of, say, $3,000 a year. So there are different problems, whichever way you skin it. If you allowed the IRS to do it one-time a year, that would create problems for some people. If you wanted it as part of the withholding process, and some of these issues regarding income contingent loan repayment—having your loans paid back on your future earnings—that can be done in a number of different ways.

It can be done with the IRS. It can be done in the private sector, with your income data being made available to the lender for them. And it's already allowed that way. Congress created, in the last 2 years, what's called an income sensitive repayment program. There are currently banks and private loan collectors using that program. So that is important. My only concern is expressing that the way to do it right would be to have it done through the withholding process.

And I think that that is a dangerous way to go. I think it is putting an awful lot of additional burden upon every employer, large employer, small employer, self-employed. There's already enough confusion out there. My wife and I have been self-employed in the past, and just the tax code already is extremely difficult to understand. The Department of Education published tables, as part of their negotiated rulemaking last year on direct lending, on the repayment schedules.

I would like for the committee to see the 23 steps that you must undergo to figure out what your payment should be, and the .00 x percents of whatever if you're divorced, or if you're married. If you both have loans and then file a joint tax returns and then you get divorced, who has the liability? There are a lot of problems involved in the IRS doing this that are not part or assumed in the tax code.

There still is no clear answer that I've ever heard where, if I had a $20,000 student loan and my wife had a $12,000 student loan, we got married, we made payments for 3 years through the IRS

withholding, jointly on our tax statements, we filed joint returns. We end up getting divorced. Where is the tax liability? Who has the tax liability in that situation? I've never heard a good explanation on how that would be handled, from all the proponents of this, over the last 15 years.

Mrs. MALONEY. Go ahead, Mr. Chairman.

Mr. HORN. I'm just saying, which one of you has the best lawyer apparently determines who has the tax liability, and the gender of the judge, perhaps.

Mr. HANSEN. It is a serious issue, though, when we have a divorce rate of over 50 percent. This is a very common element that needs to be thought about.

Mrs. MALONEY. Mr. Finn, could you comment on the withholding problem for small businesses that he raised?

Mr. FINN. I don't doubt that it's an issue, if this is done through the withholding mechanism, as opposed to being added to your taxes, due at the end of the year. I mean there could be a line on your 1040 which says, in addition to what you owe for taxes, most of which was withheld, do you owe anything else to the Federal Government, such as a student loan? If so, please write the amount of your annual payment in here, and add that to the check that you write on April 15th.

It doesn't have to be done through the withholding route. I'm not in love with the IRS. I doubt that many people in the room are. I also speak as the parent of a 24-year-old who called up the other night, trying to fill out his Federal Student Loan Application form for professional school for next year. And I don't relish the thought of him spending time in Leavenworth.

But ever since the default issue began to become a large issue and to cost the taxpayer a lot of money, what's been going through my mind is that people don't take the Education Department's collection seriously. And there are very few consequences for borrowers, for bankers, for State guarantee agencies, for anybody really, for allowing that default to ultimately land on the taxpayer. There are just very few consequences.

Earlier the Department's CFO itemized a bunch of consequences, with respect to your lifetime credit rating. And I'm sure those are real. But I also began thinking, how can we get more consequences so that people would take this more seriously? It does seem to me that the IRS is the likeliest place to look for this.

I know they don't want to do it. I know they don't do a great job of everything they have to do today. And I know there will be technical problems in setting it up that way. Nor do I expect it to happen in the next year. But I've never thought it wasn't worth trying.

Mrs. MALONEY. OK. Thank you. And very briefly, you mentioned earlier the $68 billion spent on education. And one of the problems was that it was in all these other agencies. Why not bring all that money into the board of education? Wouldn't we be creating, even in your own words, more of a problem, by taking all of this money and placing it out all over the place again, without a coordinating unit?

Mr. FINN. The $68 billion figure, by the way, comes out of the Department of Education's own compilation of education statistics. It's all over the government. And some of it, they're counting things

like West Point, where they're talking about government education spending, because they're running an institution of higher education there. Should it be run by the Department of Education, rather than the Department of Defense?

Reasonable people could probably argue about that. In 1979, actually, the Carter administration tried to pull more programs from other agencies and put them into the Department of Education. Head Start is a pretty good example. Most people who know about education would think it belongs with the elementary/secondary programs, because it's a pre-school program. But the Head Start and early childhood constituency wouldn't hear of moving it to the Department of Education, so it stayed in HHS, where it is today.

It's fragmented today. My own view is that without a Department of Education, it would not get more fragmented. And the other problems that came with the Department of Education might be eased.

Mr. HORN. Thank you. Mr. Flanagan's statement will be put at the beginning of this hearing with other opening statements, without objection. Let me thank this panel profusely. You've both contributed, from your experience of both hands-on and study of the subject, a lot of wisdom for this committee to digest. We thank you both for coming today.

We'll now start with panel two, which has become panel three, the Honorable George Muñoz, Assistant Secretary for Management, and Chief Financial Officer, Department of the Treasury; and Mr. Paul L. Posner, the Director of Budget Issues, Accounting and Information Management Division, of the General Accounting Office.

[Witnesses sworn.]

Mr. HORN. I understand Secretary Muñoz might have to leave early. So we'll start with you.

STATEMENT OF GEORGE MUÑOZ, ASSISTANT SECRETARY FOR MANAGEMENT, CHIEF FINANCIAL OFFICER, DEPARTMENT OF THE TREASURY; PAUL L. POSNER, DIRECTOR OF BUDGET ISSUES, ACCOUNTING AND INFORMATION MANAGEMENT DIVISION, GENERAL ACCOUNTING OFFICE

Mr. MUÑOZ. Mr. Chairman and members of the subcommittee, I am George Muñoz, Assistant Secretary for Management and Chief Financial Officer for the Department of the Treasury. I thank you for the opportunity to appear before you again. I have been asked to testify before you today as a representative of the administration who has broad experience in management reform. I will draw from several perspectives; first, as a former customer of the Department of Education, when I served as president of the Chicago Board of Education during the mid-1980's; second, as a representative from a peer Cabinet agency, the Department of the Treasury; and third, as executive vice chair of the governmentwide Chief Financial Officer's Council, which focuses on financial and management improvement throughout government.

As I testified earlier to this committee, I am both an attorney and a certified public accountant. I have extensive management experience in both the public and private sector, including profit and loss responsibility in business. As Treasury CFO, and as vice chair of the CFO Council, I have worked on management improvement

efforts throughout the government financial management community. I'm also familiar with many of the improved efforts underway at Education.

No one disputes the great importance of education to each of us as individuals, to our communities, to our Nation. Education is the key to our economic growth. If you cut education, you cut the incomes of all people. There is nothing more important to raising incomes and raising standards of living than education. The President has repeatedly emphasized that education is the fault line of economic opportunity in this country.

Phase II of the National Performance Review asked all agencies to look at their fundamental mission; asking in fact, if an agency should be in existence at all. We were all tasked to define and justify our core mission, based on what our customers—the citizens of the United States—think and want. Let me address this issue up front. The Federal Government should have a Department of Education.

The American people, our customers, are clearly pro-education and pro-Department of Education. Last January, a Wall Street Journal and NBC poll specifically asked whether there should be cut-backs in the Department of Education. Over 80 percent of the people said no, and 70 percent said the Department itself was very necessary in the role it played. I could not agree more.

The Department's role today is exactly as it should be. It provides focus, direction and support to States, local communities and institutions to improve education nationwide.

What is the role of the Federal Government in education; and why are national goals and measures so important? It must be noted that States do not have a legal or Constitutional obligation to educate. They must only provide the opportunity for education.

The States do not guarantee educational outcomes. The Federal Government, through the Department of Education, assists in encouraging States and communities in setting challenging standards in helping students meet higher educational goals, and in measuring the performance of our educational system, using objective standards.

The Department of Education, our smallest Cabinet-level agency, with about 5,000 FTEs, is a model agency, under NPR principles in that it is steering more and growing less.

It, too, is cutting bureaucracy, reducing regulations, and devolving many of its activities to States, localities and schools. But after all the cutting is done, and all the efficiencies are put in place, we still need the Department of Education to provide principles, financial assistance and assessment. It plays a fundamental leadership role that is critical to our Nation.

Let me give you an example from my own experience at the Chicago Board of Education. I was having great difficulty in getting people to focus on the fact that we had a serious drop-out problem in the city and around the country. Different school systems were using different scoring systems for calculating the drop-out rate, and all of them were understating the problem. The published drop-out rates at that time were between 10 and 12 percent in some of these large urban centers, but the actual number of students dropping out was in the neighborhood of 50 percent in the

large urban schools. The Department of Education assisted in getting true and full disclosure on the extent of the drop-out problem by publishing the comprehensive "Nation at Risk" study. The study had a tremendous impact in helping Chicago and other urban school systems address problems with educational performance and drop-outs.

The Goals 2000: Education America Act was passed by Congress this past year, with strong bipartisan support and the backing of almost every major national parental, educational and business organization, as well as the Nation's Governors and legislators. Today, Goals 2000 is supporting State and local efforts in Chicago and across the Nation to set challenging academic standards.

Having no doubts as to the need for a Department of Education, I would like to address management improvement efforts in the department. My observations of the Department of Education is that it is making progress in several management and financial reform areas, many of which are key to NPR initiatives and to overall performance improvement. This is largely due to the leadership, follow-through and hands-on management style of Secretary Riley.

He is focused on results, and has created an environment where good ideas are rapidly translated into success. Let me briefly highlight some of these gains. In strategic planning: As you know, strategic planning is a key to effective management in any organization. The Department of Education recently completed its first strategic plan. This strategic plan identifies four key priorities for carrying out the department's mission of ensuring equal access to education and promoting educational excellence nationwide.

The first three priorities focus on helping States, local communities and agencies to develop higher academic standards, to provide school-to-work opportunities, and to access post-secondary education and lifelong learning. The fourth priority, that of transforming the department into a performance driven organization, is required to accomplish the other three. In each of the priority areas, the plan sets ambitious performance targets for improving how the department serves its customers and the results it expects.

And its use of performance indicators puts Education ahead of many other agencies in implementing the Government Performance and Results Act. Over the past 2 years, the department's strategic plan has driven budget priorities, resource and personnel allocations, and strategies for carrying out reform. That's sound business practice.

On the CFO Council, I have the opportunity——

Mr. HORN. If we might ask you to summarize.

Mr. MUÑOZ. I will, Mr. Chairman. I just wanted to conclude, then——

Mr. HORN. Take another minute or so and summarize the key points there. We have you full statement, you know.

Mr. MUÑOZ. Yes, sir, I'd like to supply my full statement for the record.

Mr. HORN. Sure.

Mr. MUÑOZ. I do want to highlight that the Department, in the regulatory reform area, is making far-reaching changes. Its strategic plan is a specific call for action that integrates NPR principles into everyday life at Education. For example, under its new prin-

ciples for regulating, Education regulates only when it's essential to meet program goals. Then it is flexible and non-burdensome as possible. Education has identified more than 100 unnecessary burdensome procedures and actions is in progress to change or eliminate most of these procedures.

I do believe that after all is said and done, all of our agencies have to go through the process of streamlining and reinventing themselves to make sure they are meeting the customer goals. But in the final analysis, that should not mean the exclusion of a department that is so crucial to our Nation's top priority, which is education. That concludes my opening statement, sir.

[The prepared statement of Mr. Muñoz follows:]

PREPARED STATEMENT OF GEORGE MUÑOZ, ASSISTANT SECRETARY FOR MANAGEMENT, CHIEF FINANCIAL OFFICER, DEPARTMENT OF THE TREASURY

Mr. Chairman and Members of the Subcommittee:

I am George Muñoz, Assistant Secretary for Management and Chief Financial Officer for the Department of the Treasury. I thank you for the opportunity to appear before you again. I have been asked to testify before you today as a representative of the Administration, who has broad experience in management reform. I will draw from several perspectives: as a former customer of the Department of Education when I served as President of the Chicago Board of Education during the mid-1980's; as a representative from a peer cabinet agency, the Department of the Treasury; and as Executive Vice Chair of the Governmentwide Chief Financial Officers Council, which focuses on financial and management improvement throughout government.

As I testified earlier to this committee, I am both an attorney and a certified public accountant. I have extensive management experience in both the public and private sector, including profit and loss responsibility in business. As Treasury's CFO and as Vice Chair of the CFO Council, I have worked on management improvement efforts throughout the government financial management community. I am also familiar with many of the improvement efforts underway at Education.

EDUCATION AND LINK TO ECONOMIC GROWTH

No one disputes the great importance of education to each of us as individuals, to our communities, to our nation. Education is the key to our economic growth—if you cut education, you cut the incomes of all people. There is nothing more important to raising incomes and raising standards of living than education.

The President has repeatedly emphasized that "education is the fault line of economic opportunity in this country.'

THE DEPARTMENT OF EDUCATION

Phase II of the National Performance Review asked all agencies to look at their fundamental mission—asking, in fact, if an agency should be in existence at all. We all were tasked to define and justify our core mission, based on what our customers, the citizens of the United States, think and want. Let me address this issue up front—the Federal Government SHOULD have a Department of Education.

The American people, our customers, are clearly pro-education, and pro-Department of Education. Last January, a Wall Street Journal and NBC poll specifically asked the question whether there should be cutbacks in the Department of Education. Over 80 percent of the people said no; 70 percent said that the Department itself was very necessary in the role it played.

I couldn't agree more. The Department's role today is exactly as it should be—it provides focus, direction and support to states, local communities, and institutions to improve education nationwide.

What is the role of the Federal Government in education and why are national goals and measures so important? It must be noted that states do not have a legal or constitutional obligation to educate; they must only provide the opportunity for education . . . The states do not guarantee educational outcomes. The Federal Government, through the Department of Education, assists in encouraging states and communities in setting challenging standards, in helping students meet high educational goals and in measuring the performance of our educational system using objective standards.

The Department of Education—our smallest cabinet-level agency with about 5,000 FTEs—is a model agency under NPR principles in that it is "steering more and rowing less." It too is cutting bureaucracy . . . reducing regulations . . . and devolving many of its activities to states, localities and schools. But after all the cutting is done and all the efficiencies are in place, we still need the Department of Education to provide principles, financial assistance, and assessment. It plays a fundamental leadership role that is critical to our nation.

Let me give you an example from my own experience at the Chicago Board of Education. I was having great difficulty in getting people to focus on the fact that we had a serious drop-out problem in the city and around the country. Different school systems were using different scoring systems for calculating the drop-out rate and all of them were understating the problem. The published drop-out rates were 10-12%, but the actual number of students dropping out was in the neighborhood of 50% in the large urban schools. The Department of Education assisted in getting true and full disclosure on the extent of the drop-out problem, by publishing the comprehensive "Nation At Risk" study. The study had a tremendous impact in helping Chicago and other urban school systems address problems with educational performance and drop-outs.

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Having no doubts as to the need for a Department of Education, I would now like to address management improvement efforts in the Department.

MANAGEMENT AND THE DEPARTMENT OF EDUCATION

My observations of the Department of Education are it is making progress in several management and financial reform areas, many of which are key to NPR initiatives and to overall performance improvement. This is largely due to the leadership, follow-through and "hands-on" management style of Secretary Riley. He is focused on results and has created an environment where good ideas are rapidly translated into successes. Let me briefly highlight some of these gains:

Strategic Planning

As you know, strategic planning is a key to effective management in any organization. The Department of Education recently completed its first-ever strategic plan. This strategic plan identifies four key priorities for carrying out the Department's mission of ensuring equal access to education and promoting educational excellence nationwide.

The first three priorities focus on helping states, local communities and agencies:

- to develop higher academic standards;
- to provide school-to-work opportunities; and
- to access post-secondary education and life-long learning.

The fourth priority, that of transforming the Department into a performance-driven organization, is required to accomplish the other three.

In each of the priority areas, the plan sets ambitious performance targets for improving how the Department serves its customers and the results it expects. And its use of performance indicators puts Education ahead of many other agencies in implementing the Government Performance and Results Act (GPRA).

Over the past two years, the Department's strategic plan has driven budget priorities, resource and personnel allocations, and strategies for carrying out reform. That's sound business practice.

Financial Management

On the CFO Council, I have the opportunity, on an ongoing basis, to work closely with the Department of Education's Chief Financial Officer and Deputy Chief Financial Officer. Both individuals—Don Wurtz and Mitchell Laine—are eminently qualified for their respective positions. They bring to the CFO Council an enthusiastic support for the overall improvement of financial management throughout the Federal Government.

As you know, Mr. Wurtz came from the General Accounting Office (GAO) and joined the Department of Education on the heels of a critical 1993 GAO report regarding management problems at Education. In fact, he participated in the GAO review. As a result, he knows where the problems are and has the background to address them forcefully. And he's doing just that.

Further, through discussions with Mr. Wurtz and Mr. Laine, I have come to understand that the emphasis placed on implementing the CFO Act has helped the

Department of Education make meaningful and substantive management improvements. Specifically, Education has been able:

- to receive, for the first time in the Department's history, a clean audit opinion from an outside auditor, with no reported material weaknesses on a major financial program—the Direct Student Loan Program;
- to muster the resources necessary to conduct a comprehensive general ledger account reconciliation that has significantly improved the accuracy and usefulness of the Department's accounting records;
- to initiate improvements in the financial functions of cash management, accounts receivable management, prompt payment, and collections on delinquent and defaulted loans and accounts;
- to establish an innovative Financial Management Quality Team tasked with steering financial management policy to better serve the needs of program managers;
- to initiate a redesign of its Core Financial System to implement a modern, integrated financial management system; and,
- to attract technically qualified financial professionals—people like Don Wurtz—from both the private sector and other federal agencies to fill critical vacancies and experience gaps.

Customer Service—New Flexibility:

Increasing responsiveness to customers needs is a vital NPR principle and Education is making progress on a number of fronts in adding local discretion and flexibility to its programs. Education is building on new legislation to strengthen partnerships with states, districts, schools and families, to be more flexible, and to help energize reform. The Department has several efforts underway to encourage state and local innovation and greater involvement of parents and communities in learning. The goal of these initiatives is to provide a balance between the Federal Government and communities, schools, and states to improve education for all Americans.

The Department also has implemented an agency-wide approach to improve communications customers. It has organized focus groups with teachers, parents, students and program administrators to solicit feedback on programs and information useful in preparing policy.

A "1-800-USA-LEARN" telephone number connects customers to a "one-stop" center for information about Departmental programs and student aid. The Department's On-line Library offers information on education legislation, research, statistics, and promising programs to more than 17,000 people every week.

Regulatory Reform:

The far-reaching changes that Education is making demonstrates that the Department is serious about regulatory reform. It's strategic plan is a specific call for action that integrates NPR principles into everyday life at Education.

For example:

- Under its new "Principles for Regulating", Education regulates only when it's essential to meet program goals. Then it's as flexible and non-burdensome as possible.
- Education has identified more than 100 unnecessary burdensome procedures and action is in progress to change or eliminate most of these procedures.

AREAS FOR FUTURE CONSIDERATION

As I have indicated in my testimony, the Department of Education is making progress in several important areas in management reform. I would encourage the Department to continue focusing efforts on the following areas:

CONTINUED EFFORTS TOWARDS AN INTEGRATED FINANCIAL MANAGEMENT SYSTEM

The Department is in the process of developing a central automated processing system (EDCAPS). This single integrated system will provide system support to the Department's core business processes and will replace costly, outdated systems which have long outlived their useful life cycle and are quite expensive to maintain. The new integrated system will substantially reduce system maintenance costs, automate many manual steps by providing work flow processing, provide enhanced reporting capabilities, and improve program delivery.

CONTINUED USE OF STATE-OF-THE-ART INFORMATION TECHNOLOGY

Any effort toward management reform must include technological enhancements. One such system that is already being used at Education is AskERIC:

AskERIC is an online national education information network that provides free information on education and schooling to more than 25,000 people each month through Internet and commercial online services. It includes a question/answering service and a "virtual library", which is an extensive electronic collection of resources and full-text documents for users. AskERIC breaks down many of the communication barriers between the Federal Government, universities, and public schools.

I encourage Education to continue to pursue and implement initiatives like this—to take advantage of new technologies—to empower public administrators, teachers, and parents to be proactive towards educational matters in America's local communities.

And finally, I encourage Education to continue its outstanding efforts in implementing the CFO Act and GPRA principles.

Thank you. I would be happy to answer any questions you may have.

Mr. HORN. Very good. What is your time schedule, Mr. Secretary?

Mr. MUÑOZ. Sir, if I can be out by 4 p.m., I would be very appreciative.

Mr. HORN. OK, then we'll go ahead with Mr. Posner, and then have questions. Would you identify your colleague?

Mr. POSNER. Thank you, Mr. Chairman, I will. I want to introduce my colleague. This is Cornelia Blanchette, who's our Associate Director for the education area. I thought it was important to have her at the table, as she is familiar with all GAO's work in that area. My statement is going to focus on the opportunities that GAO has identified over the years, particularly recent years, to consolidate Federal programs. This is a perennial issue that we have found.

When I joined GAO in 1976, we issued a report which was entitled, "Fundamental Changes are Needed in Our System of Federal Assistance to State and Local Governments." And the reason why we said that, was not just that we felt strongly about State and local prerogatives. The fragmented nature of Federal categorical programs complicates and frustrates the efficient achievement of Federal objectives. The things that we said then are still true in many areas today.

And my statement summarizes a number of areas where we see real opportunities to improve the following kinds of goals. One, we see opportunities to reduce administrative burdens and costs for the Federal Government, as well as State and local government. We see the opportunities to permit more efficient delivery of services by integrating related programs—both related Federal programs and related State and local programs with the Federal programs.

We see the possibility of promoting improved relationships with the customers of government services and programs. And finally, we see such a consolidation exercise as prompting a healthy reconsideration of Federal programs and roles in the Federal system. My statement points to a number of opportunities across a broad range of Federal opportunities, ranging from defense to energy to nutrition. I will focus on a couple, related to the hearing today.

In the employment and training area, we have issued a number of reports over the past several years identifying the numerous Federal programs assisting State, local and private sector in providing employment training for needy people. There were 163 Federal programs across 15 agencies, roughly $20 billion. These pro-

grams typically have similar purposes, similar services, similar clientele, use parallel service delivery systems, which increases administrative costs, complicates and frustrates local efforts to pull it all together and muddles things for clientele trying to reach into the Federal service delivery pot.

And the inconsistent requirements among these programs for planning and applications and reporting further complicate matters. We have proposed one option that CBO has scored as saving roughly $2.2 billion over 5 years by consolidating 18 of those programs, and reducing the cost by 10 percent to recognize the advantages that come from consolidation. The Department of Education has a patchwork of programs that presents opportunities in this area.

Again, the Department of Education, as you have heard today, has a budget of $33 billion. But this is only part of an estimated $70 billion in Federal education assistance. The Education Department administers 244 education programs, but 30 other agencies administer another 308. Education, as has been said today, proposed several programs as candidates for consolidation. GAO has identified another 36 programs that also may be potential candidates.

And let me give you an example of some of those patchwork of programs that we've identified through our audit and evaluation work. In the area of early childhood education, there are more than 90 pre-school and child care programs, offered by 11 agencies, that target children at similar ages, sometimes provide similar services, but differing costs and comprehensiveness.

There are about 86 programs in 9 Federal departments that offer teacher training, and about half are primarily focused on teacher training. The latter group of those primarily focused on that kind of program are obligated $280 million for teacher training activities for such things as conferences, salaries, trainers, travel and materials. With regard to at-risk youth, there are about 46 programs administered by 8 Federal agencies that focus on that target population.

Let me just say that there are other examples that are backed up by our reports. Also, there are several issues that need to be considered when designing a consolidation kind of program. One that is very much foremost on all of our minds today is how can a consolidation be designed to achieve savings at the Federal level? Consolidation can yield two types of savings.

One is the administrative costs at all levels of government, of just permitting the consolidation of similar activities into one kind of program. And the other are potential efficiencies in the delivery of program services. Now, let me emphasize that the savings come from actually reducing activities and dollars, not by expecting or assuming savings in some kind of future sense, in administrative costs and efficiencies.

I say this having tried to identify such savings in the 1981 block grants for several years with GAO. When we went to 13 States, and lo and behold, we found that while States could tell us that their administrative burdens were clearly reduced—much reduced paperwork and administrative reporting and that kind of thing. Staff were freed up to do other things, but I will tell you that staff

were generally not cut. There was not the hard dollar savings, in other words, at the State and local level. Although, as you've heard today, there clearly was at the Federal level.

The other issue that I know that everybody is paying attention to is accountability. What does consolidation mean for things that Federal Government still cares about? Does it mean that we put the money on the stump and run? Does it mean that we have a results-oriented set of measured objectives?

Well, it could mean either of those things are anything in between. We've had block grants, like the JTPA program, that have been fairly specific and targeted and results oriented. And we've had block grants, like social services block grants, or some of the ones in the early 1980's, that are much more flexible with regard to the States.

The Congress can control accountability by the way we design these programs. The record shows that too many accountability provisions can actually frustrate the objectives of what you're trying to do. In other words, you don't get the efficiencies and the integration. Too few, on the other hand, the record shows, Congress tends to lose interest in programs when they don't get data needed to understand what's going on with the program.

Too few, for example, can enable fiscal substitution to occur, where States will take broad pots of money and simply replace the money they otherwise would spend—something that we know has happened with categorical programs, from highways to Chapter 1, would most likely happen with broader pots of money as well. Which behooves us, simply, to think about, what are our design features? What do we want to ultimately accomplish? What balance of power are we really trying to bring about with these programs? And how do we get there, and thinking clearly about that so we know essentially what we're getting. Thank you.

[The prepared statement of Mr. Posner follows:]

PREPARED STATEMENT OF PAUL L. POSNER, DIRECTOR OF BUDGET ISSUES, ACCOUNTING AND INFORMATION MANAGEMENT DIVISION, GENERAL ACCOUNTING OFFICE

Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to provide a statement on program consolidation issues that your Subcommittee now is considering. The federal government administers a multitude of programs that often are duplicative and overlapping, reducing the efficiency and effectiveness of government activities and services. Program consolidation is a promising alternative for increasing efficiency of government operations and improving performance.

A major focus of today's hearing is education program consolidation. During the past year, we have issued several reports documenting fragmentation and duplication in education and education-related programs.[1] This work highlights a patchwork of programs with similar goals, serving similar populations in the areas of teacher training, early childhood education, and programs targeted to at-risk youth. In April, 1995 we testified on opportunities for education program consolidation before the House Subcommittee on Human Resources and Intergovernmental Relations.[2] In that testimony, we noted that the Department of Education has been active in identifying ways to streamline through program consolidation. However, we

[1] Early Childhood Programs: Multiple Programs and Overlapping Target Groups (GAO/HEHS-95-4FS, October 31, 1994) and Multiple Teacher Training Programs: Information on Budgets, Services, and Target Groups (GAO/HEHS-95-71FS, February 22, 1995). On January 19, 1995, GAO issued correspondence to Senator Cohen and Congressman Goodling on education development programs for at-risk youth (GAO/HEHS-95-60R).

[2] Department of Education: Information on Consolidation Opportunities and Student Aid (GAO/T-HEHS-95-130, April 6, 1995).

also identified further opportunities to consolidate and/or eliminate education programs beyond those identified by the Department.

The comments we made on education program consolidations in our April testimony are similar to the consolidation issues we have identified in other policy areas. Our statement today discusses some of the general issues that we believe are important to all such efforts, giving special emphasis to grant program consolidations.

The Congress has shown a strong interest in exploring opportunities for program consolidations and streamlining across many areas of the federal budget, from defense and international affairs to transportation, health, and welfare. There is reason to expect, therefore, that some consolidations will bring together activities that are wholly federally financed and administered. However, many of the program-consolidations currently being debated would merge smaller, more narrowly defined federal grant programs into larger consolidated programs of state and locally-administered federal assistance. It is expected that the new programs will operate as broadly-defined partnerships with state and local governments in which federal funding will be limited and reduced. Accordingly, our discussion emphasizes the budgetary and other implications of grant consolidations to the federal government.

THE POTENTIAL BENEFITS OF PROGRAM CONSOLIDATION

GAO's work shows that program consolidations can lead to increased efficiency and improvements in performance that significantly benefit taxpayers, administrators, service providers, and beneficiaries alike. GAO audits and evaluations illustrate that many federal programs have similar and overlapping objectives, provide similar services to the same populations, and could be streamlined. GAO work also highlights how other federal programs work at cross-purposes and could be reconciled and coordinated to improve service delivery.

Whether programs are administered solely by the federal government or as grants to states and localities, there are ample reasons to consider consolidation, including:

- Program consolidations offer opportunities to reduce federal spending in terms of administrative costs, program costs, or both. In the case of grant consolidations, particularly, budgetary savings can be achieved in three ways: reductions in federal agency staffing and overhead involved in grant administration, lower payments to the states in anticipation of reduced state administrative costs and burdens, and savings from more innovative and efficient delivery of consolidated program services. We will discuss the budgetary implications for the federal government and those at state and local levels later in our testimony.
- Program consolidations can improve administration and service delivery, especially when programs with similar objectives and clientele are brought together and conflicting requirements, duplication, and overlap are reduced. States and localities can turn new-found flexibility into more effective services by reconciling and coordinating activities in light of local conditions. Along these lines, GAO has reported that the Omnibus Budget Reconciliation Act of 1981 (OBRA) block grants enabled some state agencies to use personnel more productively as staff devoted less time to federal administrative requirements and more time to program activities.[3] We also reported that states were able to better coordinate programs after the consolidations.[4] More recently, our work has shown that multiple food assistance programs confuse applicants about programs and benefits available to them. If food assistance programs were streamlined, GAO has reported, service delivery could be improved.[5]
- Program consolidations can also create opportunities to reassess federal programs or activities and eliminate programs that are duplicative, outdated, or in which costs for benefits received either do not or no longer justify federal spending. For example, GAO testified that many small, specifically targeted postsecondary education programs are potential candidates for consolidation because they appear to have overlapping target populations or provide similar services. As we said, these small programs are costly to implement and oversee, and evaluating their effectiveness is difficult. Program consolidation could reduce program administrative costs, and the Department of Education could better focus its management resources on evaluating the remaining programs.

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[3] See, for example, our summary report on OBRA 1981 block grant implementation, Block Grants: Overview of Experiences to Date and Emerging Issues (GAO/HRD-85-46, April 3, 1985).

[4] State Rather Than Federal Policies Provided the Framework For Managing Block Grants (GAO/HRD-85-36, March 15, 1985).

[5] See, for example, Food Assistance: USDA's Multiprogram Approach (GAO/RCED-94-33, November 24, 1993).

EXAMPLES OF CONSOLIDATION OPPORTUNITIES IDENTIFIED IN GAO'S WORK

The following eight examples show in greater detail the range of opportunities for program consolidation found in GAO's audits and evaluations. Seven of the examples are drawn from our recently released report, Addressing the Deficit: Budgetary Implications of Selected GAO Work for Fiscal Year 1996 (GAO/OCG-95-2, March 15, 1995).

Reappraise Rural Development Programs

Since 1989, GAO reports and testimonies have commented on problems in federal rural development programs.[6] Hundreds of federal programs provide rural development assistance across multiple federal agencies. The programs are complex and generally difficult to administer because state and local officials must grapple with varying programs rules and regulations. For example, there are 11 different programs in six different federal agencies that provide assistance for water and sewer projects, each with its own set of regulations. This complexity results in inefficient and costly delivery of federal assistance.

Appropriate program consolidation pursuing a broad strategy for economic development in rural areas provides one alternative to the current system of multiple, narrowly focused programs. Program consolidation would provide the opportunity to eliminate overlapping or duplicative activities, thereby facilitating improvements in the effectiveness and efficiency of overall federal assistance to rural areas. Depending on the extent of the consolidation and resulting roles and responsibilities, program savings could be achieved at each level of government, from lower administrative costs of regulatory compliance on the local level to reduced overhead expenses from consolidated program administration at the federal level. To illustrate the potential for savings, GAO's example used the President's proposal to consolidate funds among 14 Department of Agriculture (USDA) rural development loan and grant programs. Such an initiative could generate $42 million in administrative savings by reducing USDA headquarters full-time employees.

Streamline Defense Infrastructure

DOD faces huge challenges in effectively managing its diverse operations as it downsizes its forces and activities. Consolidation can be a viable option for DOD as it tries to reassesses its mission and improve efficiency. The following two examples—restructuring the defense transportation system and consolidating the separate military exchange stores—are among a wide range of potential DOD consolidations.

Numerous studies by DOD, presidential commissions, and others have reported that the structure of the defense transportation system is fragmented and inefficient. Traffic management processes were developed independently for each mode of transportation, with each supported by an independently developed automated system. Although in 1993 DOD designated the U.S. Transportation Command (TRANSCOM) as the single DOD manager of the Defense Transportation System, separate component command headquarters and an antiquated worldwide field structure have remained essentially unchanged. TRANSCOM recognizes the need to overhaul its system and is actively engaged in a reengineering initiative.

GAO has testified that fixing the organizational structure is a mandatory first step to address the fragmented transportation system and substantially reduce transportation costs.[7] Consolidation will be an important component of the restructuring. For example, the integration and consolidation of transportation information systems could result in improved efficiencies and administrative savings. TRANSCOM's Joint Transportation Corporate Information Management Center is recommending reducing 120 current information management systems to 23 or less by 1997.

DOD's "morale, welfare, and recreation (MWR)" program is a $12 billion enterprise that provides service members, their dependents, and eligible civilians with an affordable source of goods and services. Exchange stores are the largest producer of MWR revenue. Since 1968, studies by GAO, DOD, and others have recommended the consolidation of exchanges into a single entity, predicting that financial benefits

[6] See, for example, Rural Development: Patchwork of Federal Programs Needs To Be Reappraised (GAO/RCED-94-165, July 28, 1994).

[7] Defense Infrastructure: Enhancing Performance Through Better Business Practices (GAO/T-NSIAD/AIMD-95-126, March 23, 1995).

could result.[8] While the Army and Air Force exchanges have been consolidated, the Navy and Marine Corps retain separate exchanges.

Revenue generated by the MWR is likely to decrease in the 1990's because of the downsizing of forces and increased private sector competition. Appropriated funds—which now constitute 10 percent of MWR funding—are also expected to decline as overall budgets decline. In this environment, consolidation and streamlining could benefit DOD financially.

Consolidate Strategic Petroleum Reserve

The consolidation of the Strategic Petroleum Reserve (SPR) could reduce or eliminate excess storage capacity, improving SPR's efficiency and reducing overall program costs.[9]

Because of budget constraints, very little crude oil has been purchased for storage in the SPR since 1993, and no additional purchases are planned for fiscal year 1995. Currently, the reserve has about 150 million barrels of excess storage capacity spread out over four of the five storage sites. Consolidation of storage sites would result in lowering operations and maintenance costs by $12 million over 5 years according to the Congressional Budget Office—if the Department of Energy (DOE) maintains the amount of oil stored in the reserve at its current level of about 600 million barrels.

Streamline employment and Training Programs

The challenges posed by increased global competition and a changing economy call for a renewed commitment to invest in the American workforce. However, federal efforts to meet this commitment have resulted in a wide array of programs spread across 15 departments and independent agencies with a total budget of about $20 billion. Many of the programs have similar goals and provide the same services to similar populations using separate, parallel delivery structures. GAO has identified 163 federal programs and funding streams providing employment and training assistance.[10] This overlap can add unnecessary administrative costs at each level of government—federal, state, and local. It can also lead to less than effective service delivery.

Consolidation could provide an opportunity to improve efficiency and effectiveness in employment and training programs. GAO used the example of consolidating similar employment and training programs for the economically disadvantaged and dislocated workers to illustrate the potential for savings. The example would consolidate nine programs for dislocated workers and another nine programs for the economically disadvantaged. In anticipation of administrative efficiencies to the states as well as improved opportunities to reduce program fragmentation, grant funding could be cut by 10 percent, saving the federal government about $2.3 billion over 5 years.

Consolidate U.S. Department of Agriculture Food Assistance Programs

The federal domestic food assistance system is a good example of the wide range of potential benefits from program consolidation. Fourteen programs under USDA provide food and food-related assistance to about 39 million people, from infants to the elderly, with estimated federal funding of $37 billion in fiscal year 1994.

GAO has reported that the multiple program approach used to provide food assistance has created a complex administrative structure involving different nutritional goals and funding schemes and encompassing various combinations of federal, state, and local agencies, that, for the most part, dispense food benefits independently.[11] Administrative procedures are inconsistent, confusing applicants about what programs and benefits are available.

In February 1995, we reported that one alternative for streamlining current food assistance programs would be to consolidate three commodity food assistance programs that rely on USDA commodities.[12] These programs—The Emergency Food Assistance Program, Soup Kitchens/Food Banks and Commodity Supplemental Food

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[8] See, for example, Morale, Welfare, and Recreation: Declining Funds Require DOD To Take Action (GAO/NSIAD-94-120, February 28, 1994).

[9] Energy Policy: Ranking Options To Improve the Readiness of and Expand the Strategic Petroleum Reserve (GAO/RCED-94-259, August 18, 1994).

[10] See Multiple Employment and Training Programs: Major Overhaul Is Needed to Reduce Costs, Streamline The Bureaucracy, and Improve Results (GAO/T-HEHS-95-53, January 10, 1995); Multiple Employment Training Programs: Overlap in Programs Raises Questions About Efficiency (GAO/HEHS-94-193, July 11, 1994); and Multiple Employment Training Programs: Overlapping Programs Can Add Unnecessary Administrative Costs (GAO/HEHS-94-80, January 28, 1994).

[11] Food Assistance: USDA's Multiprogram Approach (GAO/RCED-94-33, November 24, 1993).

[12] Food Assistance Programs (GAO/RCED-95-115R, February 28, 1995).

Program—could be consolidated, giving states more flexibility to target resources more effectively while continuing to support USDA's price support and surplus removal activities.

In GAO's illustrative example, CBO estimated that $217 million in savings could be achieved by eliminating some grant funding currently provided the states for program administration. Alternatively, consolidation could be based on a reassessment of domestic food assistance programs in line with broader policy objectives and goals. In this instance, duplicative or overlapping programs would be eliminated and state and local flexibility increased to improve service delivery and reduce administrative costs at all levels of government.

Reorganize Federal Land Management Agencies

Federal lands are managed primarily through the National Park Service, Bureau of Land Management (BLM), and Fish and Wildlife Service within the Department of the Interior and the Forest Service within the Department of Agriculture. These agencies have prepared or are preparing a streamlining plan to reduce and restructure their work forces. Further efficiencies could be achieved by exploring consolidation opportunities across existing jurisdictional boundaries.[13]

GAO has reported that efficiencies could be derived through a collaborative federal approach to land management.[14] The opportunities for consolidation include refocusing, combining, or eliminating certain duplicative missions, programs, activities or field locations across the four agencies. For example, in western Oregon, BLM and the Forest Service are responsible for 2.3 and 4.9 million acres of land, respectively. Both agencies manage portions of these lands for timber production and have parallel forestry organizations in several locations.

Through the years, there have been several attempts to have the land management agencies collaborate in their program or service provision. These include (1) consolidating BLM's and the Forest Services's responsibilities for managing adjacent lands in western Oregon and Washington, (2) the potential for eliminating Forest Service regions, and (3) using shared resources such as a Forest Service supervisor overseeing both Forest Service and BLM employees in Oregon. Savings could be achieved from closing or combining offices and duties with corresponding reductions in overhead and staff. While estimated cost savings would depend on the specific restructuring plan, the potential savings from the elimination of duplication and increased efficiencies is a compelling reason to consider consolidation.

Restructure Department of Energy's (DOE) National Laboratories

GAO has reported that DOE still maintains a redundant structure with respect to nuclear weapons work, an arrangement that may not be the most efficient alternative for meeting defense requirements.[15] DOE's laboratory network comprises 28 labs, with a budget of nearly $8 billion and employment of 63,000. Recent shifts in national priorities—principally, the dramatic reduction in the arms race and proposed cutbacks in energy and nuclear research funding—raise questions about the need for all these labs.

In particular, DOE's three large defense labs, costing about $1 billion annually, were created to design and test nuclear weapons. Currently, these labs allocate less than half of their budgets to nuclear weapons design, development and testing—the principal reasons they were created. Thus, the original strategy of planned duplication in defense lab activities could be reconsidered as the labs' original role has greatly diminished over time.[16]

Aside from deciding on the ideal number of labs, most experts GAO consulted agree that the missions of the laboratories now need to be clarified if their resources are to be used most effectively. Program consolidation offers one way to enhance efficiency and reduce overall lab costs. To illustrate the potential for savings from lab consolidation, GAO used a Galvin Commission recommendation. That commission examined a transfer of most of the nuclear weapons functions from the Lawrence Livermore to the Los Alamos laboratory to reduce overlap and duplication among

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[13] See, for example, our discussion of the President's National Performance Review Recommendation on rationalizing federal lands ownership in Management Reform: Implementation of the National Performance Review's Recommendations (GAO/OCG-95-1, December 5, 1994), p. 186-188.

[14] See, for example, Forestry Functions: Unresolved Issues Affect Forest Service and BLM Organizations in Western Oregon (GAO/RCED-94-124, May 17, 1994).

[15] National Laboratories Need Clearer Mission and Better Management (GAO/RCED-95-10, January 27, 1995).

[16] See also our discussion of the President's National Performance Review recommendation to strengthen DOE's energy management in Management Reform: Implementation of the National Performance Review's Recommendations (GAO/OCG-95-1, December 5, 1994), pp. 94-95.

these two defense labs. Such a consolidation would save about $1 billion over 5 years because while both facilities would design weapons only one would engineer and test them.

A Patchwork of Education Programs Presents Consolidation Opportunities

The Department of Education's budget accounts for about $33 billion of an estimated $70 billion in federal education assistance. Education administers 244 education programs, while 30 other federal agencies administer another 308. Education has proposed several programs as candidates for consolidation or elimination. GAO has identified another 36 programs, totaling about $3.4 billion within the department also may be potential candidates for consolidation. Some portion of an additional 151 programs administered by both Education and other federal agencies may also present opportunities to streamline federal education spending.[17]

For example, GAO has identified patchwork patterns in federal programs for teacher training, early childhood education and at-risk youth, suggesting that efficiencies in these areas might be achieved through consolidation. Services are not well-integrated in the following areas:

- More than 90 preschool and child care programs in 11 federal agencies and 20 offices that target children at similar ages, sometimes provide similar services but differ in costs and comprehensiveness.[18]
- About 86 programs in nine federal departments and agencies offer teacher training, and about half are primarily focused on teacher training. The latter group of programs obligate over $280 million for teacher training activities. Typically, such training programs fund conferences, trainer salaries travel and materials.[19]
- At least 46 programs administered by eight federal agencies are targeted to youth development. These programs are funded through earmarked appropriations targeted to similar populations. GAO is currently in the process of identifying the multiple funding streams that support these programs.[20]

THE IMPLICATIONS OF PROGRAM CONSOLIDATIONS

As the examples illustrate, program consolidations have potential to reduce federal as well as nonfederal costs and improve the efficiency and effectiveness of federal programs. However, the relationships between consolidation and federal budget savings and improvements in program operations and outcomes may not be wholly obvious, especially with respect to grant program consolidations. When consolidations result in significant shifts of authority and power over federal grant programs to states and localities, federal accountability issues are raised.

Budgetary Savings From Consolidations

Not all consolidation proposals are designed with budgetary savings in mind, although this is increasingly the case. For example, during the 1970s, consolidations of categorical grant programs into block grants were accompanied by funding increases, while the OBRA 1981 block grants carried funding reductions.

Current proposals feature funding cuts. In considering the budgetary savings that could result from such proposals, the following factors are relevant:

Federal budgetary savings are potentially available from two categories of activity—programmatic and administrative. In grant programs, each type may be achievable at the federal and/or state and local levels. Federal budgetary savings may be directly counted from changes in federal agency program and administrative activities. As well, savings may be realizable by reducing the grants in anticipation of lower state and local costs for managing federal grant programs and/or delivering program services.

In figuring the expected savings in any consolidation, it will be important to recognize that federal budgetary savings do not come from the act of consolidating programs per se. As an example, if federal activities are consolidated in a new office or bureau—but the affected responsibilities and personnel are simply transferred rather than reduced or eliminated—little, if any, savings result. The consolidation may be justified on policy grounds, but its budgetary effects could be negligible.

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[17] See our discussion of the President's National Performance Review Recommendations on Department of Education programs in Management Reform: Implementation of the National Performance Review's Recommendations (GAO/OCG-95-1, December 5, 1994), pp.71-76.

[18] Early Childhood Programs: Multiple Programs and Overlapping Target Groups (GAO/HEHS-95-4FS, October 31, 1994).

[19] Multiple Teacher Training Programs: Information on Budgets, Services, and Target Groups (GAO/HEHS-95-71FS, February 22, 1995).

[20] On January 19, 1995, GAO issued correspondence (GAO/HEHS-95-60R) to Senator Cohen and Congressman Goodling on education development programs for at-risk youth.

Rather, federal budgetary savings are the sum of reductions in federal spending due to changes in federal agency and/or grantee functions and responsibilities as a result of the consolidation. Because of this, there must be information on baseline spending so that savings can be calculated against previous levels of spending. Moreover, there also may be transition costs to figure in, such as the cost of leases, maintenance costs for unoccupied federal property, severance costs for employees who are involuntarily separated, and moving expenses for employees transferred to new sites.

Also, the effects of consolidation on current activities and institutions—in terms of the changes that are intended—will need to be clearly identified. Without sufficient specificity on the details of such changes, their budgetary effects cannot be assessed. For example, if transportation functions of the military services are to be consolidated to "the extent possible," it will still be necessary to spell out details of the changes, notably the net effects on program and administrative responsibilities and personnel.

Given the variety of federal programs and activities and types of spending potentially involved, it would be expected that some kinds of consolidation savings are easier to gauge than others. For example, direct reductions in federal agency staff and office closure savings are relatively easy to assess, although savings are net of offsetting expenses. In contrast, savings flowing from administrative efficiencies are more difficult to document and link to the federal budget. As we reported in Budget Issues: Assessing Executive Order 12837 on Reducing Administrative Expenses (GAO/AIMD-94-15, November 17, 1993), there often is no uniform definition of administrative expenses across agencies. Moreover, the budget account structure does not consistently separate administrative from program expenses. Accordingly, it is difficult to configure a federal baseline against which to assess the impact of changes.

Obtaining information on the budgetary savings created through administrative efficiencies at state and local levels is even more difficult. As in federally-managed programs, there is no uniform definition of administrative activities across states and localities. Moreover, variance in state accounting systems means that there is little comparability in accounting for administrative costs.

Beyond definition and cost accounting problems, grant programs present the following additional difficulties: (1) differences between program and administrative activities at the service delivery level may be unclear and subject to interpretation, (2) predicting the behavioral responses of grantees to increased flexibility and reduced administrative requirements often is problematic since little data on past grant-administrative expenses are available, and (3) it is difficult to track state and local administrative activities after consolidation in order to isolate the effects of the consolidation from other factors affecting spending.

Our reports on the OBRA 1981 block grants provide an example of the problems encountered in assessing state and local administrative savings. At the time of our analysis (as is true today), state accounting systems did not permit an assessment of whether states realized administrative savings sufficient to offset cuts in grant dollars. State officials did report significant reductions in regulatory and administrative burdens because of the block grants. However, these reductions did not translate directly into staff cuts. Moreover, states experienced some offsetting increases in administrative responsibilities in the process.

Accountability Issues

As noted above, among the major potential benefits of program consolidation are the improvements and efficiencies in service delivery and administration that can result when conflicting and fragmented or overlapping services are reconciled and streamlined. Taxpayers, clients, administrators, as well as those charged with responsibility for overseeing the programs, can all benefit from such improvements.

For consolidated grants, issues of accountability will be especially important. The efficiencies and improvements anticipated under the consolidated programs are the logical consequence of increased state and local flexibility to integrate the delivery of services among various federal programs and related state and local programs. In practical terms, flexibility will involve broadening the valid uses of federal funds and loosening the strings—that is, the conditions of aid and other crosscutting requirements that bind grant recipients. Broadening state and local discretion implicitly, however, involves a transfer of power and responsibility from the federal to state and local governments. As a result, the objective of increasing state and local flexibility and authority must be reconciled with the federal interest of promoting accountability for certain national objectives. For example, the recent history of block grants suggests that the failure to reach an acceptable accommodation of these

competing concerns undermines support for these programs, prompting recategorization or erosion of funding.[21]

In building accountability into consolidated programs, problems can arise from either too many accountability provisions or too few. The presence of too many requirements and conditions can inhibit states from realizing the kinds of efficiencies promised by the block grant mechanism. Overly prescriptive federal requirements can limit states' ability to integrate related federal and state programs in new and more efficient ways. Moreover, they may limit states' interest in taking ownership and responsibility for program management and results—a key attribute that the 1981 block grants succeeded in instilling at the state level initially.

On the other hand, insufficient federal accountability provisions can pose other problems for consolidated programs. The continued presence of federal funds ensures continued federal interest in promoting financial accountability for the use of funds and program accountability for achieving objectives of national interest. The recent history of block grants suggests that the absence of these provisions can either undermine continued congressional funding or prompt recategorization and prescriptive regulations to ensure that congressional objectives are achieved. For instance, the OBRA 1981 block grants, which lacked consistent national program reporting on state implementation, were subject to more than 50 congressional actions to tighten program requirements and accountability provisions.[22]

A balance will need to be struck that simultaneously responds to these two potentially conflicting objectives. It should include safeguards to protect federal financial interests. And, in keeping with the spirit of cooperative intergovernmental partnership in the newly-consolidated programs, it might also involve a reduced emphasis on controlling program inputs and greater emphasis on evaluating results and outcomes. In making such a shift, however, the Congress and federal agencies will need to decide the kinds and nature of information that will be needed to assess program results.

With respect to financial accountability—

The federal government should exercise its interest in ensuring financial accountability to ensure that state and local governments have systems in place to prevent the improper or illegal use of funds. As GAO has reported, the Single Audit Act requirement for an annual financial and compliance audit of entities receiving federal funds provides an appropriate vehicle for periodically examining the adequacy of these controls over federal programs and compliance with federal laws and regulations, while avoiding more burdensome and expensive grant-by-grant audits. Further, single audits promote financial management improvements in the entities that manage federal assistance and minimize the gaps and duplication in audit coverage that were prevalent before passage of the act.[23]

With respect to program accountability—

A results-oriented focus would be one appropriate way to satisfy federal concerns for national objectives. Such an approach would emphasize the outputs or outcomes achieved by states as measured against mutually-agreed upon and clearly-defined goals and objectives rather than the more traditional concern with how states achieve these results.

A results-oriented focus would present challenges, certainly. But, but they are not insurmountable. Agreement will be needed on goals and whether performance measures can be used to gauge success. The basic issue of how the federal and state governments will monitor and report on results measured in outcome terms will need to be considered. Finally, thought could be given to whether incentives or penalties linked to performance might serve a useful purpose in achieving federal objectives.

Overall, although it may not be possible with certain broad programs to isolate the effects of federal from state dollars, this framework would nevertheless provide critical information on program accomplishments achieved by the intergovernmental delivery system. Comparable data on the results achieved across states would help address continuing national concerns, while permitting states discretion over how to achieve these objectives.

This concludes my statement. We would be pleased to work with the Subcommittee to provide any additional information needed to address these issues.

Mr. HORN. Thank you very much, Mr. Posner, and we thank also Cornelia Blanchette, who worked on the education portion. This

[21] Block Grants: Increases in Set-Asides and Cost Ceilings Since 1982 (GAO/HRD-92-58FS, July 27, 1992).

[22] Block Grants: Characteristics, Experience, and Lessons Learned (GAO/HEHS-95-74, February 9, 1995).

[23] Single Audit: Refinements Can Improve Usefulness (GAO/AIMD-94-133, June 21, 1994).

study will be put in the record after your summary. We're most grateful for you pulling all that information together for us to provide a base from which we can ask you questions, and also very clearly see the opportunities for consolidation that you note in that process.

Mr. Secretary, it's good to see you here again too.

Mr. MUÑOZ. Good to see you.

Mr. HORN. You're becoming a regular, so we feel that we know you. You might have been here when I raised the question with the previous panel of these charts, furnished by the very able financial management service of the Treasury, where we have the receivables—non-tax receivables. Education has $15.7 billion of the receivables, only 6 percent of the total Federal Government receivables, with by the way, total the annual deficit. If we could just get all those in in 1 year, why, that would help.

And then there are the non-tax delinquent receivables—about $50 billion worth—of which Education has $14.5 billion delinquent receivables, or 29 percent of the whole. I wondered what your reaction was as to why we seem to have such a gap between the non-tax delinquent receivables and the receivables generally, when it comes to the Department of Education.

Mr. MUÑOZ. Yes, sir. I did hear the explanation that Don Wurtz from Education gave, and it was a correct explanation. And he had earlier described the process by which the Department of Education gets a hold of a loan. That is, the way the loans operate today, by the time it becomes a receivable, it's already, as Don Wurtz claimed, to be in default. That is, nobody is collecting it and it's in trouble.

So the fact that 90 percent or so of the receivables go into the delinquency column, that explains that part of it.

Mr. HORN. Well, what would you suggest as a more realistic way to classify all Federal Government receivables so we would clearly know what is collectible, potentially. That number, and if we could get a basic standard for what is a delinquent receivable. Do you have a number of days to put in there as the definition of delinquent that we could use governmentwide?

Mr. MUÑOZ. Right now, the different programs have different definitions of delinquency. And they usually revolve around the dates. That is, for some it's 90 days, some it's 120 days, some 180 days. And many of the programs, when they were established, Agriculture, HUD, others, when those programs were established, the definition of delinquency—when it would be considered to be in default and delinquent—was built into those programs. There is no one universal definition of delinquency.

Mr. HORN. Well, could the Treasury furnish this subcommittee with the various definitions of delinquency it has? Let us know, No. 1, if they're in law, cite the section of the code. And No. 2, are they based on administrative regulations of the Treasury; and cite us the relevant sections so we can see if we can't get some common policy here, as to what is a delinquent Federal loan.

Mr. MUÑOZ. We will get that to the committee.

Mr. HORN. Great. The percentage of delinquency, as we looked at it, to total receivables, seemed to be quite a gap for some agencies. Education was at the top of the list. And I take it from your

testimony, there seems to be a difference of definition with which the Treasury copes in moving the number from one chart to another.

Mr. MUÑOZ. That's correct. In addition to when something is deemed to be in delinquency, that's the number of dates that it's outstanding. Second, some of those debts are retained in the delinquent column for a certain number of years before they can be written off. So for some programs, they're written off sooner, because the statute of limitations may be a quicker time period in which to declare it write-offable. And if it's written off, it no longer shows——

Mr. HORN. Well, that's what really concerns me. As the game is partly by the agency, well, let's get it on that chart. And if it sits there so long, we can write it off. What I'm after is, where is the effort by the executive branch to collect what's owed the people?

Mr. MUÑOZ. Yes, sir. I think that's a legitimate question, and there is an effort now, on the part of the administration, to address this whole matter for the reasons that you stated. I think the American people feel that if they're paying their fair share, they want everybody to pay what they owe to the government. And this whole matter is being addressed, is being looked at by the administration.

And we hope that very, very soon, the administration will enunciate its plans for collections.

Mr. HORN. In its policy, will they set an average percentage that the Federal agencies ought to set as a goal to close that gap? Or what do you plan to do?

Mr. MUÑOZ. Well, it really won't be so much a definition as it will for tools for collection. There are some prohibitions in legislation that prohibit some of the agencies to use what are state-of-the-art modern collection techniques. And our proposal would be to address those and identify what those should be. You and other Members of Congress will have an opportunity to act upon those.

Mr. HORN. Do you recall what some of those examples are? I'm just curious what we're talking about there.

Mr. MUÑOZ. Well, some of those will be, for example, a lot of the persons who do business with the Federal Government or have some interaction with the Federal Government. Right now, we don't do any matching for offsetting payments. We don't require them to supply data that might be helpful in a collection, for example, certain taxpayer ID numbers and Social Security numbers for doing business.

The use of contractors in other areas is strictly prohibited by some agencies. Those are the matters that will be included in the package.

Mr. HORN. Will any of these programs that you're thinking about, in the administration, deal with collections through the IRS?

Mr. MUÑOZ. Not directly. The IRS has been very helpful to the Department of Education in doing offsets. When somebody is owed tax before that refund is given, there is an offset against student loans if we get notified in time. But basically, there will be an effort. There are some agencies that are very good at collections. Veterans Affairs, for example, does a very good job. Treasury, through FMS, can do a good job. And we feel that we should try to have

some competition among the agencies to try to have it be in their interest to take on collections for others, as well as themselves.

Mr. HORN. Do you have a Cabinet office for the deadbeat of the year award, or what? What are you thinking of? What gets them motivated?

Mr. MUÑOZ. Well, we have to build in incentives. For example, right now, it's a little ironic that an agency that tries to spend some resources in collecting debt does not get any relief for that, does not get to keep what the private sector would. Right now, if you had any of these student loans, and you stayed with the private sector, the private sector would say, well, give me a third of what I collect. If it's really a bad loan, I should at least get a third or get a high percentage.

And usually that's not questioned, and that's the cost of collection. In government, we don't have anything close to that. And this legislation, or this proposal that we're going to be proposing, will try to address that, so that there are some incentives in the agencies to keep some of the resources to continue to invest in collections.

Mr. HORN. Before I yield to the ranking member, let me make sure these charts are in the record. The graphs total non-tax delinquent receivables and total non-tax receivables, as of September 30, 1994.

Mrs. Maloney.

Mrs. MALONEY. Hi. Did you hear the—were you here when the other panel was here, and we were talking about having the IRS go after the student loans? And one point raised was if we had just gained that money back, it more than would cover the cost of the whole cost of education. What do you think of the idea of IRS collecting student loans?

Mr. MUÑOZ. Well, there are two ways to address it. One is policy, and one is operational. I'll start with the easier one, the operational. Operationally right now, the Internal Revenue Service does not have the systems to do student loans collections, because it's an entirely different method of collecting. We would need to upgrade our systems, to accommodate collections. And if you have collections operationally, a very crude way of collecting the recommendation that was given by the last panel, for example, of just writing in a line and saying, I owe student loans so much. There's no real way for cross checking that with the systems that we have.

Mrs. MALONEY. But if you put in a penalty, as we do for the IRS now, I doubt people would lie about it.

Mr. MUÑOZ. No, no, no, it's not that. I think that most businesses will tell you that the best way to collect is to relate to the debtor with either services or some sort of connection that they had. Because they either make accommodations, some waivers, some adjustments and the like. The Internal Revenue Service, if it's merely used for collection and not really servicing the debt and giving them full information as to how much they really owe, total picture, different schools if they may owe that, too—without being able to service it, we don't feel that there's going to be much of improvement in collection.

But on the operational, if the Internal Revenue Service were to be funded for its modernization, it would get closer to operationally

being able to do it. But let's assume we jump over that hurdle, and the question becomes a policy one, of which this body can be an important voice in that policy discussion. But here one has to figure out whether we want the Internal Revenue Service going after students and refocusing its efforts, as opposed to doing tax collections.

And if the student loan delinquency was an across-the-board problem, then I can see where you may have an agency that can deal with it in an across the board way. I think most studies will show that the delinquency in student loans is highly focused and highly concentrated. And so any policy discussion would say, well, doesn't the answer—can't we sort of niche out or carve out this problem, and address it from that point of view?

The Department of Education gives loans in some areas not merely to collect the money back, but rather to make sure that certain activities take place, that certain students get to go to school, or certain schools get to offer certain courses. And it seems to me that it's in the offering of those loans that the control mechanism should be, not so much after the fact.

Mrs. MALONEY. The Department of Education, through the National Center for Education Statistics, provides critical information on the progress of American students. Secretary Muñoz, you pointed out in your testimony that their report on drop-outs alerted many urban school districts of the problems they faced. They also provide the only measure we have to assess our progress in Goals 2000. I fear that if the Department of Education is abolished, we will lack this objective measurement of where we are.

What do you think would be the result of losing that objective voice in education?

Mr. MUÑOZ. Thank you for asking that, because I really think this is a very, very serious concern for all of us. I think a lot would be lost. And there's a reason for it—80 percent of the adults in most large cities do not have children of school age. That being the case—and this is true in Chicago, Mr. Flanagan, which I know you're very familiar with.

In all of your efforts that you've done in Chicago for schools, you know that it is very difficult to convince the local populace, the property tax payers, which mostly fund your local schools, when 80 percent of the adults do not have children of school age. While they will say that education is important, they feel that someone should be paying attention to it, but not necessarily them, because it doesn't impact on them directly at that point in time.

They feel that someone should be taking care of it, but maybe not necessarily themselves or their pocketbooks at that point in time. It seems to me that this is an area that, if you lose accountability, if it starts being spread out too much with no one being sort of responsible to ring the bell every time something goes wrong—as the Department of Education does—then we will all pay lip service that education is important, but no one is going to be standing guard to make sure that when we are slipping backwards that it does not, in fact, occur.

I testified in Congress 10 years ago, when I was called to this body to testify as the president of the school board in Chicago, whether or not I thought the Department of Education's program on Charter I was something I wanted to maintain in terms of its

efforts. And I testified that, yes, we wanted that program to be administered the way the Department of Education was doing it; not knowing that 10 years later, I might be here in this body, even debating as to whether the Department of Education should be around or not.

But I do believe that without the Department of Education, our tasks would be even more difficult.

Mrs. MALONEY. When the prior panel testified that all funds, and they used the example of Chapter 1, should be reverted back to the States in block grants, what's your feeling on that? That educational money should be block granted back, and that the local school boards and local systems will take care of the needs more appropriately than the Federal Government.

This is interesting now, to hear from your perspective as having been a former school board member.

Mr. MUÑOZ. I think I will give you a response that, at some point, if the Federal Government, through the Department of Education, were controlling a bigger percentage than 6 percent of the total expenditures for education, at some point, that would be too much, and block grants make sense. But when you really are contributing such a small percentage to speak about block grants, in essence, with no real direction or criteria, in many ways, you're basically stepping out of the education direction role.

And I think that would be a deficiency. Now, at some point, if that 6 percent grows and grows and grows and grows, I can see I would even contend, as someone who was a local user and party responsible for education, where that would be too much. But right now, I just don't see that.

Mr. POSNER. If I could just add to that, on block grants, just to say there should be a block grants in some sense, and not the end. Because as I said in my statement, it really matters a lot how you design that. And we've had block grants, as JTPA, where you can have very defined objectives nationally—the administration is talking about some vehicle like that with performance partnerships.

But you've got a whole range of issues you've got to think about, like the formula. Are we really going to try to target the money to the areas that can raise the least fiscal capacity? What do you do about the sub-state allocations, since most education is local? We know, under block grants, that States took the new-found flexibility to impose additional requirements on local governments. And they have not been shy about doing that.

What does that mean for the kind of system we want to see emerge? So there are a whole host of kind of Federal role questions—the maintenance of effort issue is one that's very significant—that need to be debated.

Mr. HORN. Mr. Flanagan.

Mr. FLANAGAN. Thank you, Mr. Chairman. Secretary Muñoz, I congratulate you on once again coming before us. It's always a treat to see you, and to further congratulate on your meteoric rise from the wake of Joe Hand to your esteemed position today. My congratulations to you.

Mr. MUÑOZ. Thank you, sir.

Mr. FLANAGAN. If I can follow this line real quickly, and then I have a larger question. It is true the Federal Government only has

6 percent of the spending, thereabouts. But through Goals 2000, through H.R. 6, they reach out and touch an awful lot of the other spending. In fact, it would not be too far to say it's an unfunded mandate in some ways. And we have a very good opinion of ourselves—we're very generous and warm, we have good goals and we have good desires and good needs.

But the operative word in all those statements is we. The Federal Government has a much larger role than the 6 percent would discuss. And I would say that in that vein, perhaps, with your previous discussion, if you were to deregulate, that would be almost a block grant merely to turn them loose in a lot of ways to be able to do the things that they need to do, and still retain some control over the actual 6 percent that goes down.

Unfortunately, the 6 percent is also inextricable to that regulatory monster as well. And so the question is larger, I think, than we've exposed. The larger question I have here is with the $50 billion, give or take, saved by OMB in debt collection to Federal agencies, that we have going out. What incentives do you see for the agencies to be able to collect up some of that debt? And what is your view of that?

Mr. MUÑOZ. As I said, sir, the administration does see what you see, which is, that's a lot of debt that is owed the Federal Government by a lot of citizens for a variety of reasons. And whatever those reasons are, we should try to have as much incentive, as well as appropriate collections, as any business would, any operation would. The administration is now looking at tools for collection, such as the use of contractors, the use of offsetting, better centralization of information for that collection.

And then of course, the same incentives that work in the private sector, such as sharing part of the collection with those who collect it.

Mr. FLANAGAN. Well, I would offer you this, and I knew we'd go there and that's why I wanted to expose this. In this sense, government is unique in that you, I, and many who are involved in this tax collection process, are public servants. Our salaries are paid by the government of the United States, by the people. I question the need for a positive incentive for any given agency or administration to do what it's paid to do.

I realize that sounds fairly facile, Mike, you haven't been here very long, you don't understand bureaucracies—they need to be bribed into doing what they're doing, if you will. I think that there is such a thing as a negative incentive. There's a stick, as well as a carrot. Why is that not explored larger, in a larger sense, in many of these agencies in tasking them to accomplish the goal of collecting the debt that's with them, rather than having to cajole them to get it done?

Mr. MUÑOZ. I think that's a fair point. And I think that when you're going to hold someone responsible, then that agency must at least have the tools with which to do a better job.

Mr. FLANAGAN. I agree.

Mr. MUÑOZ. And I think the agencies are asking for that. And that's the major thrust of the kind of needs the agencies require right now, is those tools. With respect to the incentives that we talk about, these are not sort of rewards, as much as a whole agen-

cy's mission and function is carried out in such a way that you put resources where there is the greatest demand or customer service for.

If you're doing collections, that takes FTEs; it takes resources; it takes modernizing your computer systems, your financial information systems, servicing that debt. It's a whole new focus that's going to require funding of some sort. If it's to be self-funding, then that's one way to do it. If it's going to be funded through the appropriations process, which usually doesn't get funded—something like that just doesn't grab the imagination of a lot of people.

They feel there is a more urgent need to provide the critical mission, which is not collections. But we feel comfortable that this matter is finally going to be addressed in a fashion that I believe is very much in line with what you're thinking.

Mr. FLANAGAN. I would hope so, because I find it inconceivable. I was in the service for 4 years, and it's not a mind-set that lasts your lifetime, but it certainly is an exposure to one. And that is, you have a certain set criteria, this is your mission essential tasks. To define success, you need to do these things. One of those things, an agency ought to be, collect the money that's owed the Federal Government. And if you're not doing it, you need to find other work.

And I remain confused—or not confused, but perplexed at our reluctance to say hold people accountable, and you have failed in your mission because you have not collected this, we need to replace you. I mean, we have—I won't say a sacred duty—but a very important duty to be stewards of the people's money. And to try and cajole ourselves to want to do it in a very warm and friendly, lotus position sort of way, is kind of ridiculous.

We need to do our job, and we need to do it much better. If the Federal Government, in the education loans, is moving to direct lending, and we have these incentives to collect moneys, what incentive do we have on the converse side of that to have better credit management? For example, if we now receive a remuneration for the moneys we collect, then what desire do we have to make sure we make good loans and other things?

On the back side of that, in short, what clever bureaucrats, and how do we control the clever bureaucrats somewhere that say, well, if you create a big debt, then collect a big debt, then we get a piece of that. And I realize that's probably very narrow, the number of times that will happen, yes, sure it is. But how can we control and watch out for that, too?

Mr. MUÑOZ. Well, I think that things will still be governed by, I mean, the standard that you said earlier, that you hold people accountable for not collecting the debt, in terms of the extension of the debt. If it was done merely for growing the debt, the likelihood is that you're going to have some problem debts there. You're not going to be collecting them. So it works in reverse.

My sense is that once people do have the tools, and the direct student loan example is a good one, where I think the Education Department now can be more accountable and more directive in terms of its loans. I do think that the collection problem for that department will lessen.

Mr. FLANAGAN. OK, I will look forward to a complete enunciation of what those tools might be and how they can be best implemented. Thank you, Mr. Muñoz. Thank you, Mr. Chairman.

Mr. MUÑOZ. Thank you.

Mr. HORN. Thank you, that was a helpful dialog. Mr. Muñoz, have community development block grants worked, to the best of your knowledge?

Mr. MUÑOZ. Sir, I wish I was more informed on the subject. I just know that it's a mixed bag. It's heavily reliant, as was said by Mr. Posner, on the conditions that not all grants come with the same criteria. It all depends, also, on how you define success. Some of the users of community development block grants have used them for good purposes and successes, aimed at the same intentions that the Federal Government had pointed out.

Sometimes when that articulation or objective is not made clear, then I would say that the success is not there. But it's a difficult question for me to answer.

Mr. HORN. Mr. Posner, you've looked at community development block grants in terms of GAO. We hear a lot of pluses and a lot of minuses, as you know, this year. And it's gone on for years, as one administration or the other has tried to squeeze the EDA. What's your reaction? Have they worked well, community development block grants?

Mr. POSNER. I'll say I'm not that close at this point to the work we've been doing, but in general, when you look at a couple dimensions, those of us who want to see grants allocated to places based on a combination of need and their capacity to provide for those needs have been disappointed in the CDBG formula.

We send money to places that, while they have pockets of need, have very strong fiscal capacities and the wherewithal to provide those services. We've done some work that suggests that if you made a 25 percent cut in the program and changed the formula, you could still maintain the same or increased levels of aid to places like East St. Louis. And by eliminating the eligibility by the wealthier counties in this country, maintain what we might call a fiscal safety net, and hold harmless those least able to bear the brunt of the cut from the cut.

So that's been one area. Another area that's been very difficult for evaluators to get their hands on is alluding to what Mr. Muñoz said—what are we accomplishing with this money, because the purposes are so broad. You can provide housing, you can provide public services. And this is one area where this whole issue of results-oriented management comes up against kind of the realities of what results do we want to hold communities accountable for.

Given the fact that the block grant permits a very wide, diverse range of results, it's a very difficult area to define outcomes and that kind of thing. So you basically say, what we're doing is giving communities a pot of money to aid their neighborhoods, and enable them to do as many things as possible with that. It is a real challenge, to try to focus on what are we trying to really achieve, and what results are we trying to achieve with that money.

Mr. HORN. Am I correct that the way the community development block grant is administered now, does require substantial discretion by the granting agency? And one of the ways an education

block grant would work, I think, would be much like the old revenue sharing model, where you agree on the data you need, if it's below poverty, x percent of the people, diversity of cultures, so forth, so on, certain levels of education. You could pump those in almost automatically as criteria, and write the checks accordingly, assuming the Federal Government had a lot of surplus money to write checks, which it doesn't. But here we are. And what do you think, how we can best administer that?

Mr. POSNER. Well, it depends on what you want to accomplish. In other words, if you want the money to go for education, you'll probably going to have to do a little more than write the check. You're going to have to have some kind of a maintenance of effort to make sure that, in effect, the States don't use the money to reduce their money and fund the department of social services.

This is where we kind of talk about seeing through the form to the function of the transaction. And that requires some thought about what are we trying to really accomplish here. But again, if the purpose is more to provide some fiscal relief and some general purpose aid for States, then the mechanism you're talking about, the Treasury Department had the offices of revenue sharing in the 1970's turn out checks to I believe 36,000 units of local government.

Mr. HORN. Right.

Mr. POSNER. The formula was very well targeted, by and large, and that money presumably aided those governments in accomplishing their missions. But again, it gets back to what do you want to achieve, and then from there, talking about how you design and set up that program.

Mr. HORN. One of the criticisms of some of the grants made by the Department of Education over the years—and maybe they've solved this problem—is that a school district with a substantial underserved population, and with low incomes, would get the grant based on those data, and then use it in other parts of the district. And I don't know the degree to which any of the GAO studies show that that is no longer happening. Because it certainly did happen at one point in time.

Ms. BLANCHETTE. All right, I can't cite any completed work that would substantiate or refute that, but we are currently undergoing a number of studies where we are looking at education finance issues. Equity within States and among the States are among the issues we're looking at. So hopefully, in the near future, we will be able to comment on that. But today, I can't; I'm sorry.

Mr. HORN. Well, we thank you. Mr. Muñoz, before you go, one question. I think in your opening remarks a question came up of the Department of Education and its establishment of drop-out rate goals. I guess the query would come, isn't it really the local government or the State government that will have to provide the leadership, the resources, if those goals are going to be met? I wondered for years, for example, whatever happened to the old truant officer?

They don't seem to be around, roaming around, getting youth off the streets during the day. And you just find a tremendous number of youth in this city and elsewhere. This city, I see it, in particular. But Los Angeles is no exception, either. And I just wondered, are

the States and locals disinterested in pursuing goals without Federal intervention, or what?

Mr. MUÑOZ. In part. I go back to the statistics I cited earlier, two things I cited earlier. One is, States required only to provide an opportunity for education, not a results oriented mission. And that bad news, no one wants to give or explore. So the local school board of Chicago had problems disclosing that the drop-out was beyond the 10 to 12 percent. The State government, which funds and oversees that school system, had problems in really looking at it.

But the national level, it had no problems saying what is going on in Chicago, New York, Atlanta, Los Angeles, and the like. And sometimes bad news needs to be uncovered by those that maybe are a little bit more distant, but as interested in what's going on in the locality. Does that mean on all other levels? No, it's not on all other levels.

And the Department of Education's role in that instance wasn't necessarily pouring a lot of funds into this area, or mandating matters. It was merely focusing on an issue and asking the right questions, and having these kinds of matters looked at. Ultimately, it did lie in our hands, locally and at the State level. And fortunately, all large urban centers today fully disclose the extent of the drop-out problem.

And it is severe and it's problematic. But when the "Nation At Risk" study came out and said that 27 percent of the population at that time were high school drop-outs, when 27 percent of the students are not graduating from school, that is a severe indictment of this country's school system, and no coincidence, therefore, that we don't rank as high in many areas with our industrial counterparts.

Mr. HORN. I think, since you come from Chicago, they would have had an ideal number of truant officers. Am I wrong on the patronage aspects of the history of that city? It seems to me there are certain advantages in patronage if you have them going out doing their job.

Mr. MUÑOZ. Yes. Well, truant officers was one way. It's not the most efficient way to bring students back to the classroom. We think the most efficient way is to make the classrooms interesting; to grab the attention of the students; to try to relate to the students. Chicago is a school system, not unlike the larger urban centers, that has challenging students in that there are different languages spoken—many of them native different languages—and different expectations.

The most efficient way is to try to connect to that student, and not necessarily try to track them down. I believe Representative Maloney at one point had made reference to the fact that it used to be that people used to take an interest. And if they saw some student walking down the mall or in a shopping mall, people would stop him and say, why aren't you in school? And there was sort of an indirect truant officer working in society some years back. And now that's no longer the case.

Either they're afraid of the students or don't care about them or are confused as to why they're there. But we do believe that the best way to spend money is to try to keep the students' interest in the classroom by making the classroom more relevant to them. Not

by changing the curriculum, but by changing the way of communicating. If I may put in a pitch for, it wasn't until recently that research has discovered that there's more than the two ways of teaching that we were trying to reach students.

There are five, seven different ways, and these should be practiced in the classroom because Johnny can read, if approached a certain way, and will not read, if approached a certain other way. And most of us who have succeeded, who have done well, have done it well under the standard method of teaching that was used. But there were others that dropped by the wayside that didn't need to be dropped by the wayside. And I think those are the most effective ways of keeping students in class.

Mr. HORN. Well, I share your concern about the tremendous drop-out rate. I look back to my own schooling in rural California, and remember a lot of friends that dropped out by the eighth grade in those days, and some dropped out the first 2 years of high school. You're absolutely right that with different, more exciting methods of education, we might have captured those students, and got them interested in something. That's why I'm an advocate of right-brained education, the arts and areas such as that. I've seen outstanding work done by many of these drop-outs, which, if we could just encourage them in that effort, they might have gotten back to the more traditional left-brained activities that most of us were graded by. So I can sympathize with you on that. Does the ranking member have any further questions? Let me thank the staff that worked on this hearing. The subcommittee counsel, in supervising and putting the work of the staff together was Michael Stoker, who's to my left and your right. The staff director, Russell George, and the support staff of Mark Uncapher, counsel, and Mark Brasher, professional staff member; Tony Polzak, legislative fellow, Wallace Hsueh, staff assistant; and Andrew Richardson, clerk; our reporter, Marianne Nash; and the minority staff professionals, David McMillen and Mark Stephenson. I thank you all. We are adjourned.

[Whereupon, at 4:15 p.m., the hearing was adjourned, subject to the call of the Chair.]

[Additional information submitted for the hearing record follows:]

PREPARED STATEMENT OF HON. JOHN M. SPRATT, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH CAROLINA

I take issue with the comments made by former Secretary Herrington in his testimony about Dan Reicher, Deputy Chief of Staff and Counselor to Secretary O'Leary. I have known Dan Reicher for almost a decade, going back to when he was at the Natural Resources Defense Council and I chaired the House Armed Services Committee's Department of Energy Panel. I have continued working with Dan Reicher since he became Deputy Chief of Staff to Secretary O'Leary. He is a conscientious public servant who has performed his duties to the Department of Energy well. We may not have agreed on all issues, but I have always respected his intelligence, his integrity, and his commitment to public service. At the Department of Energy, Dan Reicher has taken an important role in reforming contracting practices, reorganizing the department, and disposing of excess lands and facilities. As an attorney with NRDC, Reicher worked for stronger environmental and safety laws and worked to see that the laws on the books were enforced within the Department of Energy. He raised attention to safety problems in the nuclear weapons complex and questioned projects which in some cases Congress canceled.

Mr. Herrington stated in his testimony that Secretary O'Leary and the Administration have "little interest in keeping the weapons program healthy." I dispute this statement. Secretary O'Leary and the Administration have worked with Congress

to develop a stockpile stewardship program, which includes construction of the National Ignition Facility. They are moving forward with a new tritium source to replace the project canceled by the last Administration. Secretary O'Leary did support continuation of the nuclear testing moratorium and did so against some opposition within the Clinton Administration, but events have vindicated her position. It is hard to conceive how the Nuclear Nonproliferation Treaty could have been renewed had the United States still been testing nuclear warheads.

I also take issue with Mr. Herrington's assertion that DoE nuclear weapons functions should be transferred to the Pentagon. Shared control of nuclear weapons by civilian and military authorities ensures checks and balances. These checks and balances have worked for fifty years, and there is no reason to abandon them now. This is not just my view or the view of the current Administration. It is a view widely held by Republicans and Democrats, including President Bush's very able Secretary of Energy, Admiral Watkins, who testified persuasively against this step at our hearing.

PREPARED STATEMENT OF THE NATIONAL EDUCATION ASSOCIATION

Chairman Horn and Members of the Subcommittee:

The National Education Association represents 2.2 million education employees in America's public elementary, secondary, vocational, and postsecondary schools. We appreciate this opportunity to present our views on an issue critical to the future of American public education: the continuation of the U.S. Department of Education.

Since its establishment in 1980, the U.S. Department of Education has played a key role in both Republican and Democratic administrations in defining and advancing the national interest in education. The Department has been pivotal in coordinating and improving programs designed to promote excellence and opportunity for all. Current proposals to eliminate the Department or consolidate its function with other departments, such as the U.S. Department of Labor, ignore the Department's successes and the critical importance of education in every aspect of American life, from national security to economic growth.

The American people do not support the disestablishment of the Department of Education. They understand it plays a vital role in leadership, coordination, research, and accountability. They know virtually every community in the nation benefits in some way from the resources and leadership provided by the Department. The millions of individuals who have been helped by programs administered by the Department do not support the disestablishment. Even those concerned about reducing the size and scope of the federal budget do not believe we should shortchange future generations by eliminating the Department of Education.

Some have sought to reassure Americans who support individual federal education programs by suggesting the programs now administered by the Department could be transferred to other federal agencies or to the states themselves. Real reductions in federal expenditures could only come from dismantling and defunding education programs. Administrative costs for the Department of Education are now only 2% of its budget, and administrative costs are less than when various education programs were scattered in multiple agencies.

In the same way, projections about improvements in efficiency and effectiveness of coordinating the Department of Education with another federal Department or agency have no basis in fact. Scattering programs among various agencies would tend toward less coordination and efficiency. Housing education programs in another department would only tend to dilute the emphasis on education. If this Congress is serious about improving efficiency and coordination, the Committee should consider a proposal to move education programs now housed in Health and Human Services, the National Science Foundation, and Agriculture into the Department of Education.

Moreover, assertions that the U.S. Department of Education has somehow usurped the rights of state and local governments and led to a "national school board" are absurd. Local school boards and state legislatures continue to play the dominant role in setting educational policy. Many have criticized the role the Department has played in assuring opportunity for all, but shaping a society that is truly committed to the ideals of equality is a difficult task. Without national leadership, opportunity in education and employment would be only the province of a privileged few. The federal government, through the Department of Education, has assured access to education for minorities, those with limited proficiency in English, and children with disabilities to the long-term benefit of our nation's economy and in homage to the ideals of our founders.

ACHIEVEMENTS OF THE DEPARTMENT

The U.S. Department of Education is more effective and efficient than ever before. Under Secretary Richard Riley, the Department has approached its mission—to help local schools and their students—with more focus, less bureaucracy, and less regulation than under Secretaries Lamar Alexander, Lauro Cavazos, or William Bennett. Far from expanding the number of bureaucrats, the Department of Education under Secretary Riley has reduced the number of staff, even while working to implement important new initiatives, including Goals 2000, School-to-Work, and the expanded Eisenhower Professional Development program.

Many vital federal education programs, such as Title I programs for basic math and reading skills, the Individuals with Disabilities Education Act, and postsecondary student aid predate the Department's creation. But there is no question that housing all of these programs in a single Department has enhanced the coordination of education goals, whether they were the recommendations of the 1983 report, A National At Risk, commissioned by the Reagan Administration, or the National Education Goals, initiated and endorsed by the Bush Administration. Since the creation of the Department, national leaders have devoted more attention to the challenges facing students, teachers, and schools at all levels than ever before. This is fitting, since the challenges facing our nation and our schools are daunting.

Many of the challenges facing our schools, such as preparing young people for good jobs in the future, are national in scope. Other challenges, such as immigration policy and the impact of federal activities on the tax base or enrollment of public schools, are the direct result of federal policies. Suggesting that there should be no federal role in education is to suggest the impossible: that there be no national interest in educational quality and equal opportunity.

Today, some 6.5 million students benefit from additional help in basic math and reading skills that help prepare them for future educational and economic opportunities under the Title I program administered by the Department of Education. Local school districts have greater flexibility to design and implement programs to help students today than they have since 1965.

At least 8 million American children with learning or physical disabilities benefit from appropriate education and related services in America's public schools through the Individuals with Disabilities Act.

Approximately 11 million college students are able to expand our nation's intellectual resources and economic capacity through financial assistance from federal student grant and loan programs.

Educational opportunities are directly improved for as many as one out of five Americans today, and millions more Americans—including many on this Committee—have benefited from federal resources, technical assistance, and leadership in education. To take away that level of aid is the certain path to a nation that is poorer, less secure, and less just than it is today.

POLITICAL MOTIVATION FOR DISESTABLISHMENT

Since it was first created, the Department's critics have hurled wild accusations, none of which have any basis in fact. What makes some of these allegations more absurd is their mutability according to the political winds.

For many years, critics of the Department charged that it tried to usurp the rights of duly elected school boards in a myriad of ways. And yet, ironically, through the implementation of the Hatch Amendment, prohibiting students from being subject to psychological tests, the Eagle Forum and other organizations attempted to force the Department into the role of a national enforcement agency that would dictate the curriculum, textbooks, and materials of school districts across the nation. This effort to overreach the Departments scope was held in check by explicit, statutory prohibitions against the Department of Education addressing issues of curriculum, textbooks, and materials.

Some critics have alleged that the Department plays an inappropriate role in curriculum, values, and politics. But it was William Bennett who, while Secretary, adopted as key goals content (i.e., curriculum), character (i.e., values), and choice (i.e., vouchers). More recently, the Department has promoted an active and unfettered role for states and localities to set forth standards and programs to achieve the National Education Goals.

Attitudes about the value of the Department can change over time. When Lamar Alexander was Secretary of Education he traveled around the country and spoke to thousands of groups explaining and promoting what he viewed as the elements of the federal role in education: providing leadership, technical assistance, assured access to educational opportunity, and leadership toward meeting the National Education Goals. As a candidate for President of the United States he says he was

wrong about all that. On the other hand, Terrel Bell, President Reagan's Secretary of Education who was appointed to oversee the dismantling of the Department wrote in February 1995, "To do away with an agency that manages an area so essential to our future success is ill-advised and short-sighted . . . Even the Department's harshest critics have suggested some federal role for education. But in my view, anything that does not have the status, budget, staff of professionals, and programming capability of a Cabinet agency is insufficient."

THE FUTURE FOR THE DEPARTMENT, THE FUTURE FOR AMERICA

NEA cares about the future of the Department of Education because we care about the future. We have no stake in federal buresucracy, per se, but we do have a stake in children and in lifelong learning. It is an interest we share with every parent and all Americans.

Our first concern is the quality of educational opportunity. There is no question that the schools must change to prepare for the challenges of the future. And the fact is, the Department's programs and activities assist schools and parents with many of the most daunting challenges, such as the rising costs of postsecondary education and the need to better coordinate secondary education programs with postsecondary programs to ensure better jobs skills.

The Department plays a vital role in expanding opportunity in a society that is still in a transitional stage from gender, racial, and disability discrimination to full equality. The Department's research activities help guide policy makers at the state and local level in a way that no individual school, state, or consortium of schools or states could do. And the Department provides resources to help cope with both present and future needs, from directing Title I, Title VII block grants, and school safety resources to communities that do not have the means to provide such programs to allocating resources for technology, teacher education, and infrastructure to meet the expansion of knowledge and the growth of our nation's population.

Should American children be asked to take these cuts and meet the challenges of the next century on their own? We think the answer is no. This generation will face a world that is more diverse, more complex, and more competitive than ever before. The most conservative action we can take, one that protects our nation's future economic growth, national security, ability to compete in a global economy, and ability to live in a stable and just society is to give America's children all the help we can. We serve no good purpose by creating artificial barriers that suggest that federal involvement in a national concern is somehow evil. NEA members strongly support local control of public schools. We believe the best accountability for schools is through elected local school boards, and state and federal officials. The federal role is small, but vital, and we believe it must be continued.

FOUR QUESTIONS

In considering proposals to eliminate or consolidate the Department of Education, we ask that the Committee ask four fundamental questions.

- Will disestablishment lead to cost savings? By itself, there are scant economies of scale that might come about by the elimination of the Department. In a separate proposal, the House-passed Fiscal Year 1996 Budget Resolution, this Congress has pledged to eliminate more than 150 federal education programs that benefit millions of students. These proposals are represented as a net reduction of federal expenditures, but they will result in a net loss in opportunity, security, and economic growth for America. Cuts in vital federal education programs will inevitably lead to greater obligations in remedial programs, the costs of the criminal justice system, and loss of tax revenues. Even if the federal government relieves itself of present commitments to share the costs of nutrition, health, and family support programs, they will still become national problems.
- Will disestablishment lead to greater educational opportunities for any student? It is a fair question to ask whether schools, families, and communities have done enough to address Americans' concerns about school safety, basic skills, and preparing students for good jobs in the future. But it is hard to argue that eliminating federal programs that address those concerns will make matters better. It is even harder to argue that those issues will receive the appropriate level of national attention if there were no Department of Education. Many argue that educational opportunities for students with disabilities, limited English proficiency, minority students, and women and girls will be as good without a federal role, but the fact remains that millions of Americans were denied such opportunities prior to federal involvement.
- Do national economic and security goals have an educational component? One of the primary justifications for having a Secretary of Education at the

Cabinet table is to coordinate national education policy with the President and other Secretaries responsible for national defense, human development, economic growth, and every other endeavor. Eliminating a national role in policy making adopts a kind of "hope for the best" strategy that suggests that every community is equally able to identify and address national needs. Our only hope for success in an uncertain global economy with complex global political challenges is to have an agency that can at least identify national needs and provide some financial assistance to communities or students that need help most.

• Will eliminating the Department of Education eliminate the bureaucracy and regulation that hamper diversity, creativity, and local autonomy? NEA members must meet the challenges of teaching and helping children grow, often with one hand tied behind their backs as a result of complex prescriptions about how they must do their jobs, as opposed to what they must do. These prescriptions come from state government or central district offices to a far greater degree than any federal regulations. In fact, most federal regulations are designed to enhance accountability and assure opportunity. NEA supported efforts to enhance flexibility and local initiative in the newly reauthorized Improving American Schools Act and the enactment of the Goals 2000: Educate America Act. Both measures were designed to concentrate the focus on what to achieve—that is, quality, rather than to dictate how teachers teach or schools should operate. But enhancing flexibility is not the same as walking away from real needs. The Department of Education must be provided the authority and resources to support local efforts to enhance quality and equality while allowing for creativity and initiative.

CONCLUSION

If America keeps demagoguing, we will lose the American public schools that have played such a vital role in our nation's success. Many politicians have played on the fears of the American people about federal control of education, and yet the vast majority of people who are responsible for making those decisions about education support the Department and appreciate its assistance. A majority of school board members, parents, state legislators, other state and local education officials, college presidents and faculty, as well as the teachers and other education employees themselves support continuation of the Department. None of the horror stories trotted out during the consideration of the establishment of the Department have come about, nor has the transformation and improvement of public education been immediate or complete as some may have hoped. But the Committee should not delude itself that the Department has had no effect. The Department of Education continues to provide substantial assistance to students of all ages and communities of every description. It continues to provide information and assistance that is vital to parents, students, and education policy makers. And it continues to provide resources—and provide them over a range of human and economic needs—that no other entity could replace.

We urge you to reject the proposal to take this step backward and instead focus on the future, including ways to make the Department of Education more effective in promoting quality and equity for every student in America.

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