

104

EXECUTIVE BRANCH REORGANIZATION

Y 4. G 74/9: S. HRG. 104-433

Executive Branch Reorganization, S...

HEARINGS
 BEFORE THE
 COMMITTEE ON
 GOVERNMENTAL AFFAIRS
 UNITED STATES SENATE
 ONE HUNDRED FOURTH CONGRESS
 FIRST SESSION

MAY 17, 1995
 AN OVERVIEW OF HOW TO DO IT

MAY 18, 1995
 VARIOUS PROPOSALS

Printed for the use of the Committee on Governmental Affairs



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EXECUTIVE BRANCH REORGANIZATION: AN OVERVIEW OF HOW TO DO IT

WEDNESDAY, MAY 17, 1995

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 10:05 a.m., in room SD-342 Dirksen Senate Office Building, Hon. William V. Roth, Jr., Chairman of the Committee, presiding.

Present: Senators Roth, Glenn, Stevens, Akaka, Lieberman, and Grassley.

OPENING STATEMENT OF CHAIRMAN ROTH

Chairman ROTH. The Committee will please be in order. This morning's hearing is the first of two that the Governmental Affairs Committee will hold this week on how to reorganize the Executive Branch. Tomorrow we will look at several specific proposals to consolidate and eliminate various departments and agencies, as well as to privatize certain functions. Today's hearing, however, is intended to focus primarily on the general principles that should apply to any reorganization plan—an overview of the "how to's," and the "how-not-to's."

I think it is important that we begin our inquiry this way before launching into the specifics of reorganization. We need a good, firm, rational basis for the downsizing and restructuring of the Executive Branch or else we will end up with a mess on our hands.

Right now, the environment on Capitol Hill for consolidating and eliminating departments, agencies and functions is almost entirely budget-driven. As someone who has long advocated the need to rethink Executive Branch organization, with an eye toward streamlining and right-sizing, I thoroughly welcome this new interest in this subject here in Congress. However, as someone who has also advocated creating a Commission tasked with thoughtfully developing a comprehensive plan, I am concerned that we may not be giving adequate consideration to what kind of Government we need for the 21st Century.

The question is not simply which Federal departments and agencies should no longer exist, or which functions should no longer be at the Federal level. Nor is it a matter of simply trying to cut spending, as important as this certainly is. The American people are frustrated, not just that Government costs so much, but also that it doesn't seem to work well. They don't feel it is satisfactorily addressing the problems they find most troubling. They want Government to spend less, yes, but they also want it to perform better.

If we are not careful in how we eliminate, consolidate, and reorganize departments and agencies, we will end up having a Government that gives even worse service than it does now.

To prevent this from happening, and from having a public that is even more frustrated with Government than it already is, we have to do several things. We have to think about what the appropriate role of the Federal Government should be for the coming decades. We need to develop a comprehensive reorganization plan that reflects those new priorities. We need a better understanding of how to instill accountability and improved performance in large governmental organizations, and we have to think carefully about how best to make the difficult transition from a Government better suited for the industrial age of mid-20th Century America to one that enters the technological age of a new century. These transitional issues are very important because they entail dealing with real people in a shrinking Governmental work force.

I am hoping that today's testimony will help inform this Committee and the Congress on how best to approach the complex issue of agency and departmental reorganization.

When, for example, should a function be part of a cabinet department? When should it be a separate, non-cabinet-level agency? When should it be an independent regulatory entity? When should it be a Government-sponsored enterprise using a corporate model? When should the function be contracted out and when should it be privatized? And are there other alternative organizational arrangements that we may not even have considered yet that might improve accountability for reducing costs while increasing performance?

As the Committee with jurisdiction over the structure of the Executive Branch, including the creation and reorganization of cabinet departments, these are some of the questions we need to explore if we are to do our job well.

There are, of course, several other important issues that bear on all of this—civil service reform and the better use of technology, just to name two. While the hearings today and tomorrow will focus primarily on structural issues, this Committee is well aware that major operational reforms are needed if the Federal Government is to function well. I intended that these issues too will be addressed this year by the Committee.

[The prepared statement of Senator Roth follows:]

PREPARED STATEMENT OF SENATOR ROTH

This morning's hearing is the first of two that the Governmental Affairs Committee will hold this week on how to reorganize the Executive Branch. Tomorrow we will look at several specific proposals to consolidate and eliminate various departments and agencies, as well as to privatize certain functions. Today's hearing, however, is intended to focus primarily on the general principles that should apply to any reorganization plan—an overview of the 'how to's', and the 'how-not-to's', in other words.

I think it important that we begin our inquiry this way, before launching into the specifics of reorganization. We need a good, firm, rational basis for the downsizing and restructuring of the Executive Branch, or else we will end up with a mess on our hands.

Right now, the environment on Capitol Hill for consolidating and eliminating departments, agencies, and functions is almost entirely budget-driven. As someone who has long advocated the need to rethink Executive Branch organization, with an eye toward streamlining and rightsizing, I thoroughly welcome this new interest in

the subject here in Congress. However, as someone who has also advocated creating a commission tasked with thoughtfully developing a comprehensive plan, I am concerned that we may not be giving adequate consideration to what kind of government we need for the 21st Century.

The question is not simply what federal departments and agencies should no longer exist, or what functions no longer engaged in. Nor is it a matter of simply trying to cut spending, as important as this certainly is. The American people are frustrated, not just that government costs so much—but also that it doesn't seem to work well. They don't feel it is satisfactorily addressing the problems they find most troubling. They want government to spend less, yes, but they also want it to perform better. If we are not careful in how we eliminate, consolidate, and reorganize departments and agencies, we will end up having a government that gives even worse service than it does now.

To prevent this from happening, and from having a public that is even more frustrated with government than it already is, we have to do several things. We have to think about what the appropriate role of the federal government should be for the coming decades. We need to develop a comprehensive reorganization plan that reflects those new priorities. We need a better understanding of how to instill accountability and improved performance in large governmental organizations. And we have to think carefully about how best to make the difficult transition from a government better suited for the industrial age of mid-20th Century America, to one that enters the technological age of a new century. These transitional issues are very important, because they entail dealing with real people in a shrinking governmental workforce.

This is why I am concerned about a piecemeal reorganization effort—eliminating a few departments and agencies this year, and perhaps a few more next year, without any real thought as to where we want to end up and how best to get there. I am equally concerned that the counter to such piecemeal reorganization seems to be an opposition to any restructuring of the Executive Branch.

Therefore, I am hoping that today's testimony will help inform this Committee on how best to approach the complex issue of agency and departmental reorganization. When, for example, should a function be part of a cabinet department? When should it be a separate, non-cabinet-level agency? When should it be an independent regulatory entity? When should it be a government sponsored enterprise, using a corporate model? When should the function be contracted-out, and when should it be privatized? And are there other alternative organizational arrangements, that we may not have even considered yet, that might improve accountability for reducing costs while increasing performance?

As the Committee with jurisdiction over the structure of the Executive Branch, including the creation and reorganization of cabinet departments, these are some of the questions we need to explore if we are to do our job well.

There are, of course, other very important issues that bear on all of this—civil service reform and the better use of technology, to name just two. While the hearings today and tomorrow will focus primarily on structural issues, this Committee is well-aware that major operational reforms are needed if the federal government is to function well. I intended that these issues too will be addressed this year by the Committee.

Chairman ROTH. I would like to call upon ranking member, Senator Glenn.

OPENING STATEMENT OF SENATOR GLENN

Senator GLENN. Thank you, Mr. Chairman. I welcome today's witnesses. I look forward to hearing their testimony on how to reorganize Executive Branch agencies and programs and functions.

As Senator Roth has stated, Government reorganization must be done in a comprehensive and deliberate manner. It cannot be and should not be a furtive exercise where we just rearrange deck chairs or bureaucratic boxes, and giving them new forwarding addresses and shipping them to someone else in the Federal bureaucracy. Nor, in our effort to pare the Federal Government's fat, should we ever sever its muscle and cut its bone. We may end up with a smaller Federal Government that way, but it will be one

that is even less effective and efficient than the one that we have now.

This Committee has a longstanding, bipartisan tradition of examining Federal Government reorganization issues. Two years ago the Committee reported out legislation that Chairman Roth and I authored to create a Commission to reduce the costs and increase the effectiveness of the Federal Government.

We didn't envision this as just any old Commission that would convene a bunch of talking heads in order to produce some thick study that would gather dust on a shelf. We have too many of those Commissions already. Rather, the Commission's recommendations on Government reorganization and consolidation would have to be considered by Congress on a fast-track basis, so we gave it some real authority. Unfortunately, the bill did not move beyond Committee, but I would be interested in hearing from the witnesses whether its resuscitation would be worthwhile.

Clearly, we need to reorganize, consolidate and even eliminate a number of the programs and operations of the Federal Government. For example, take the myriad of Federal Advisory Committees sprawled across Government. Do we really need the Idaho-Eastern Oregon Potato Committee, the Colorado Potato Administrative Committee, the State of Washington Potato Committee, the Oregon-California Potato Committee or could they all be peeled off and consolidated into one? [Laughter.]

Perhaps under the auspices of the National Potato Promotion Board or some similar organization.

Another one of my favorite Advisory Committees is a joint Mexican-U.S. Defense Commission established by FDR to ward off a Nazi invasion from Mexico. As far as I can tell, they are still waiting for the invasion to occur.

Through presidential executive orders followed up by efforts of the National Performance Review, we have cut the number of Federal Advisory Committees by over 350. We obviously have a long ways to go yet. With accumulated savings approaching \$30 million, that still leaves over 400 Advisory Committees mandated by Congress, not just ones that were formed over by the Executive Branch, but another 400 Advisory Committees mandated by Congress over the years. I plan to introduce shortly a measure that would impose sunset limits on all of these groups and force Congress to consider which ones are truly necessary and only continue those that perform a valuable function.

This Committee has worked long and hard over the years, often with very little fanfare, on trying to improve the efficiency and effectiveness of the Federal Government; two things that are written into the mandate for this Committee. We have installed inspector generals in all of the major departments and agencies of Government, some 61 in all now, and they are doing a good job. We have improved Federal financial management, Federal accounting systems, the CFO Act. It is hard to believe we required no bottom-line audits every year from departments and agencies until 1990 and beyond, when we finally put that in. It is almost hard to believe.

We held tough oversight hearings on contracting abuses, and we strengthened agency information management and controls. Now we will be looking at Government consolidation and reorganization.

We will be asking tough questions. Is this program or function truly in the national interest? If so, how should it be administered; at the Federal level, at the State level, at the local level or by the private sector through privatization? Most importantly, how will the American people benefit?

We have a very complex society, and I think those who think we can just go to some super simplistic Government and cut out a lot of expense and administer the complex society we have, I think they are engaging in wishful thinking in that regard. I don't think we are going to be able to cut out nearly as much in Federal organization as a lot of people think. We have certain needs, and those are proper needs and those are what we should define and then define how to take care of those particular needs that the Federal Government administers on behalf of people all across this country. We want to cut the excesses, obviously. We want to do that. But I believe many, from what we read in the paper and some of the proposals particularly over in the House so far, just whack, take a machete to every government program or function. Cut everything as though we can automatically get by and have the same kind of country we have had in the past if we did that. I don't think that is possible.

So there are lots of questions, and these questions do not have simple sound-bite answers. The task of Government consolidation and reorganization is arduous and it is tedious. Eliminating Federal Advisory Committees is difficult enough, but terminating whole cabinet departments that is a Herculean task. Maybe we can do that, but who does the functions if the functions are necessary that those departments now provide? Where do they go? Will it be done any better or more efficiently just by sending them over to a new mailing address? I am not sure that that would be the case.

It cannot be accomplished overnight, not if it is going to be done right. With the end of the Cold War, we downsized the military. We closed unnecessary bases. We shrunk the Defense budget. We did it in a thoughtful and deliberate effort that has taken several years and it is still ongoing. My fear is that, after unveiling of the budget in both House and Senate, a race will now be on to see who can be the biggest and the "baddest" agency cutting Samurai for the rest of the Federal Government, and I am not sure that is the way we should be going.

I hope that, as we proceed in the months ahead, more thought will be given to ways to consolidate and eliminate Federal programs and agencies that actually improves Government efficiencies and effectiveness, and I think we can do that, but it is not something that is going to be done in some great sword-swinging, budget-cutting effort here, taking pride in our press releases on what we cut without due regard to what happens to the people that are affected by those cuts.

For 3 years now the Administration has been studying, proposing and implementing a wide range of administrative and legislative ideas to reform Government. There have been a lot of successes. We have had a major reduction in the Federal work force. The objective of the Administration was to cut 272,000 people out in a 4-year period. We are ahead of schedule on that. We hope to complete that by the end of this year. I think we are running right at the

108,000 or 110,000 actual cuts in civil service employment so far in this Administration. They should be complimented for that.

We streamlined HUD, HHS and the Department of Agriculture, and governmentwide procurement reform, which we passed last year, is now beginning to take effect. These are a few of the success stories.

The National Performance Review both proves how we can streamline Government as well as how hard it is; the length of time involved; objections from narrow special interests; turf-conscious agencies and their Congressional allies—they all can present major barriers.

As we move on to look at agency and program consolidation and elimination, I want to hear from the witnesses on what lessons we can apply from NPR, where we need to expand that, new proposals that could be made along that same line and how we can learn from previous Government reorganization efforts to accomplish this objective in a way that both saves money and improves Government effectiveness without cutting some of the services our people want from the Federal Government. So I look forward to hearing from witnesses.

Thank you, Mr. Chairman.

Chairman ROTH. Thank you, Senator Glenn. Senator Stevens?

OPENING STATEMENT OF SENATOR STEVENS

Senator STEVENS. Mr. Chairman, I thank you. I have just come by because I have another hearing, but I also want to join you and, if I understand what Senator Glenn has just said, him, too, in just stating at the outset that I think we have maybe a short-term problem in terms of the budget, but we have a long-term problem in terms of reorganization of the Government, and I do hope that we will have some bipartisan support for the concept of the Commission that you two have suggested.

I have been working for some time on some concepts to reorganize the Executive Branch and to try and concentrate on the changes that have taken place in our basic economy as we do so.

I don't know how many people have read Arno Penzias' new book on *Harmony*. I would suggest you do because he has described how the private sector has adapted now in the computer age finally into a process of really the elimination of unnecessary functions and has improved our system considerably. I do believe the same thing could take place in terms of our Government. I, for instance, don't know why every department has an administrative assistant secretary and a whole administrative branch. We ought to have a Department of Administration and admit that we have the capability now of running everything from Defense to State to Veterans out of one administrative office. I also believe we ought to get back to some core functions. I think the Heritage people have done a good job. The National Performance Review did, too, in terms of reviewing the functions, but we don't have an agreement yet. We do, I think, have the capacity to have a Department of Human Resources now, a Department of Natural Resources and the Environment on a management basis. We have the ability to combine Agriculture, Commerce and Transportation into one department and

perform the functions of Government that relate to our basic economy through one department.

It is time, I think, for us to have the kind of advice we would get out of a truly bipartisan and expert Commission now to let us proceed. There will be some savings. They will be very long term out into the period beyond 2002 the real savings would be. We need to make some savings in the Executive Branch during this period of trying to bring about a balanced budget. I think that can be done on a case-by-case basis, department-by-department. That, basically, is in the controllable expense area that the Appropriations Committees can handle. I do not think that we should bring about just a wholesale elimination of functions until we have them studied and find out how, under the new capability of our system to manage the affairs of Government, I think we should turn more to a management function for Government. If we do that, I think your Commission is the place to start.

I urge you to continue on what you are trying to do, and I would urge the Administration to look at this as something that we all ought to join together on. We do have an opportunity at this period, I think, to cooperate in this area on a bipartisan basis. The reorganizations that we are talking about probably will take place after all of us are gone from Government. If we really do it right, it is a long-term proposition. It is not something that can be achieved on a short-term. That doesn't mean that maybe an agency or two could not be downsized or merged at this point for the purposes of economy, but I would hope it would be done in conjunction with the overall planning that is going on for the basic reorganization of the United States Government for the next century. I do not believe it ought to be done, as you said, both of you, just on a short-term basis. If that happens, we will end up in a political battle with a division between the Executive and Congress on a political basis. That is not going to bring any result during this period, and I think we should plan to achieve the goal, put it into effect sometime by 2002 rather than do it now and have to correct it in 2002.

Thank you very much.

Chairman ROTH. Thank you very much, Senator Stevens. Senator Akaka?

OPENING STATEMENT OF SENATOR AKAKA

Senator AKAKA. Thank you very much, Mr. Chairman. I want to thank you for holding this hearing today, which will be the first of many to develop a blueprint for the reorganization of the Executive Branch departments and agencies.

However, before Congress dismantles any department or shifts duties from one agency to another, we must ask the appropriate questions to ensure that our efforts are warranted and will not do more harm than good.

I also want to join you, Mr. Chairman, to welcome the witnesses of the two panels that we have today. Mr. Chairman, you and the Committee will be taking on a huge responsibility. I like your approach on the Committee and this hearing, and that is to look at an overview of the general principles of our Government structure and to receive any specific proposals of restructure of departments

and agencies. Also, I want to commend you for taking a comprehensive approach and not a piecemeal approach of restructuring.

Mr. Chairman, it is not my intent to take the Committee's time to explain my views of what is right and what is wrong with the Executive Branch departments and agencies. I am here to listen so that I may benefit from the insight that our expert witnesses will share with the Committee. I look forward to their testimonies because I know that their input will be crucial in guiding this Committee and its activities relating to the reorganization of the Executive Branch.

As we begin to look into the process of downsizing the Federal Government, I urge my colleagues and those providing testimony to remember that we are also dealing with people, both the civil servants carrying out the functions of the Government and those we serve.

We must also remember that for many State Governments these are difficult budgetary times. We should not sever all ties without carefully analyzing the effects. I take the responsibility of reshaping the Federal Government with the utmost seriousness, and I welcome the advice and suggestions that will be provided by today's panelists.

I also wish to point out, Mr. Chairman, that the Clinton Administration deserves our praise for the efforts already undertaken by the National Performance Review, which has also completed its initial evaluation of the Executive Branch agencies and departments. Moreover, the review has led to restructuring proposals that, if adopted, would dramatically alter the way the Federal Government conducts business, and we need to take all of these into account, and I, again, thank you, Mr. Chairman, for having this important hearing.

Chairman ROTH. Thank you. I appreciate those helpful remarks. Senator Lieberman?

OPENING STATEMENT OF SENATOR LIEBERMAN

Senator LIEBERMAN. Thank you, Mr. Chairman. I honestly agree with everything I have heard said up until now, so I can be extremely brief.

First, thank you for your leadership in convening the hearing. It doesn't surprise me that you would see beyond the day's headlines, which are focused appropriately on the cutting of the deficit and bringing us back to balance, but you go beyond that to the more fundamental questions of the basic organization of Government, since you and Senator Glenn probably know more about this than any two people in the Senate. I look forward to working with you.

I think that your Commission idea, with which I have been pleased to join with you in the past, is a good idea worth pursuing again, and it is important, I think, to remember, finally—and taking a lesson here from the private sector—that if we just cut without regard to Governmental functions and purposes, there is a danger. While I hope we achieve balance or at least achieve the end of the annual deficit, I am concerned that because there are functions here that the people will always demand of Government, what will grow up in that next stage of our Governmental history will be an even more layered, complicated and wasteful Govern-

ment. So while it is critically important to cut, it is also important to cut with some thoughtfulness and sense of Governmental functions. If we are not thoughtful, the cuts will be momentary in their effectiveness and ultimately will recreate a hodge-podge. So I appreciate your seeing beyond the headlines to the non-headlines that are really what makes Government work.

Thank you.

Chairman ROTH. Thank you, Senator Lieberman.

[The prepared statement of Senator Grassley follows:]

PREPARED STATEMENT OF SENATOR GRASSLEY

Mr. Chairman:

I want to commend you for holding these hearings. You have been the Senate's leader in pushing for government reform, and I suspect that we will finally be successful because the public is demanding it.

As you know, the Senate Budget Committee last week reported out a balanced budget resolution. This balanced budget resolution assumes the elimination of the Department of Commerce and approximately 100 other agencies and offices.

To achieve the savings necessary to balance the budget will require a complete revamping of the responsibilities of the executive branch. I'm hopeful that these hearings will help the Senate with a more comprehensive plan to reform government.

Ms. Rivlin, let me take this opportunity to give you a message to take back to the White House: We've heard a lot of whining from the administration recently about how they want to be relevant.

If the White House wants to be relevant it has to present an alternative balanced budget by 2002. Even the Senate Democrat Leader has stated we should have a balanced budget by 2002.

House and Senate Republicans have shown the leadership. We have provided a vision and a plan. The administration has abdicated. The White House carping reminds me of Goldilocks tasting porridge: "This cut is too much," or "This increase is too little."

Ms. Rivlin, if the administration is to be viewed with credibility, we must know what Goldilocks thinks is "just right." And in the form of an entire proposal.

The Washington Post this morning reports that the White House wants to play political games with the budget for several more weeks. That's irresponsible.

It seems that the White House still doesn't get the message the voters sent last November. Instead of tackling the tough problems, the White House wants to play politics while Medicare goes bankrupt and our children and grandchildren are saddled with unprecedented debt.

I raise this budget issue at this hearing because there's a parallel. Restructuring government will be just as tough as balancing the budget. That's if you do it right.

We on this Committee will want to assess the administration's eagerness to join us in reforming government. We hear all the right rhetoric. But we're concerned that when it comes right down to doing something about it, the administration will retreat, just like it has in the budget process.

Now, I don't direct my comments to you personally. I'd like you to carry that message back to the White House so they'll know we're serious about reforming government!

If you have any comments, please feel free.

Chairman ROTH. I think we all agree that for reorganization to work, to accomplish the good that we hope can be brought about, will take close cooperation between the Legislative Branch and the Executive Branch, and we are very pleased, indeed, to have on our first panel some very distinguished members of both branches of Government. It is a pleasure to welcome you here, the Comptroller General, Charles Bowsher, who heads up the U.S. General Accounting Office.

We are also very, very pleased to have Dr. Rivlin here, who is not only currently director of the Office of Management and Budget.

et, but has had much to say and written many articles on this kind of subject. So it is a real pleasure to have here.

I want to also welcome the deputy director for management of OMB, John Koskinen. We are delighted to have you, and we look forward to your testimony.

Mr. Bowsher?

**TESTIMONY OF HON. CHARLES A. BOWSHER,¹ COMPTROLLER
GENERAL, U.S. GENERAL ACCOUNTING OFFICE**

Mr. BOWSHER. Thank you very much, Mr. Chairman, and members of the Committee. I am pleased to be here today to discuss with you some of the issues surrounding Government reorganization.

As you point out, much attention is being focused today on improving the delivery of services to the American people by identifying and eliminating inefficiencies in the way the Executive Branch is organized and plans to operate. It will be a complicated challenge, though—one made even more complicated by the fact that we are in a period of Government downsizing and budgetary pressures. Big changes are looming for the Federal Government as trillion-dollar budget-reduction proposals in both houses have made perfectly clear. While budget reduction and eliminating redundancy are driving the reorganization agenda for the moment, difficult choices remain in defining both the role of Government and the right organizational structures for delivering these services to the public.

We have identified some principles that this Committee and other members of Congress may wish to keep in mind as they proceed.

One, reorganization demands an integrated approach.

Two, reorganization plans should be designed to achieve specific, identifiable goals.

Three, once the goals are identified, the right vehicles must be chosen for accomplishing them. Of course that gets into the issue of block grants, government corporations, contracting out and other types of vehicles.

Four, implementation is critical to the success of any reorganization. There, I think, this Committee has spent a lot of time, and it is very important. In other words, whatever organization we have, whatever vehicles we have, we need proper accountability. We need financial management to work. The CFO Act is new. It should be implemented successfully.

Yesterday I was testifying before the Armed Services Committee on problems over at Defense, problems that they have had for many years in their financial management systems, and those are the kind of problems, I think, that we have got to get on top of no matter how we are organized or whatever we do with the Government. The same with having proper processes and systems and the same with choosing information management technology and, above all, the same with having a capable work force. That is very essential if we are going to have successful Government in the future.

¹ The prepared statement of Mr. Bowsher appears on page 103.

Our last principle is that oversight is needed to ensure effective implementation. Congressional hearings, I believe, should be held annually or biannually, and I think we ought to have hearings where the financial audits are presented, along with program audits of the major programs of whatever department is being heard from, and updates on the kind of progress being made on the re-engineering efforts or the reorganization efforts or the quality efforts that the organization is being asked to take on or that it has, itself, initiated.

The current structure of Government grew up over time and in response to many different problems than today's. In the absence of an integrated approach, situations such as these have arisen, and I will just give three examples.

For example, the Federal Food Safety System took shape under as many as 35 laws and is administered by 12 different agencies. It still does not effectively protect the public from major food-borne illnesses.

Another example, of course, is the employment training programs scattered across 15 different departments and agencies and 40 interdepartmental offices. We have a total, as we best can count now, of 163 separate training programs.

Little is known about the effectiveness of many of these programs and most of the agencies involved cannot say if these programs are actually helping people to find jobs.

Also, the Federal Government funds over 90 early childhood programs administered by 11 Federal agencies and 20 offices. Of the key programs we identified, 13 targeted economically disadvantaged children from birth through age 5, meaning that one disadvantaged child could potentially have been eligible for as many as 13 Federal programs. And, yet, most disadvantaged preschool aged children do not participate in any type of preschool program.

Examples like these tell us a few things. First, they tell us that the lack of an integrated approach to Government leads to redundancy and waste. They tell us that the Government can make huge efforts to provide services to the public yet still fall far short of its intentions because of the poorly coordinated efforts within and across agency lines. And they tell us that those who pay the biggest price for a tangled bureaucracy are the taxpayers, who deserve much better.

Under the circumstances, it is not surprising that new proposals are being heard to reorganize the Executive Branch. But one should not underestimate the complexity of Government structures and activities. Make changes here, and you will certainly affect something over there. Just as the lack of an overall vision over the years created many of the inefficiencies that exist in the Federal Government today, reorganization efforts that ignore the broader picture could create new, unintended consequences for the future.

For this reason, it is imperative that Congress and the Administration form an effective working relationship on restructuring initiatives and regulatory changes. Any systematic changes to Federal structures and functions must be approved by Congress and implemented by the Executive Branch. So each has a stake in the outcome.

Even more importantly, all of the segments of the public who must regularly deal with their Government—individuals, private sector organizations, States and local governments—must be confident that the changes put in place have been thoroughly considered and that the decisions made today will make sense tomorrow.

The regulations and the procedures surrounding Federal programs need to be streamlined and made more understandable so that the public will find these programs easier to use and Federal employees will find them more practical to manage.

As previous reorganization efforts have shown, reorganizing Government is an immensely complex and politically charged activity. Those who would reorganize Government must make their rationale clear and must build a consensus if they are to see their efforts bear fruit.

Regardless of the immediate objectives, any reorganization should have in mind certain long-range goals: A Government that serves the public efficiently and effectively; that is run in a businesslike fashion with full accountability; and that is flexible enough to respond to change. GPRA, in particular, has highlighted another of these long-range principles: a Government whose activities are focused on clear missions and whose success is measured in terms of outcomes rather than processes.

The management weaknesses and lack of sufficient capacity in agencies across the Federal Government are longstanding problems that will require the sustained efforts of agencies and Congress to make needed improvements. Agencies have the primary responsibility for ensuring that their programs are well managed, the funds are properly spent and initiatives are achieving the intended results. However, Congress also has an important role to play in both the legislative and the oversight capacities and establishing, monitoring and maintaining both governmentwide and agency-specific management reforms.

The process or reorganization will not stop when a plan is adopted. The key will lie in its implementation and its oversight. Reorganizing Government is an idea with much potential, but every phase—planning, implementation and oversight—deserves attention and every phase must be done right.

Thank you, Mr. Chairman.

Chairman ROTH. Thank you, Mr. Bowsheer. Dr. Rivlin?

TESTIMONY OF HON. ALICE M. RIVLIN,¹ DIRECTOR OF OFFICE OF MANAGEMENT AND BUDGET

Ms. RIVLIN. Thank you, Mr. Chairman. I am really pleased to be here to discuss Government reorganization. This Committee's strong bipartisan concern for making Government work better is impressive. You haven't just talked about it. Year after year, you have dug into nitty-gritty problems like financial management, procurement reform, and performance measurement and have actually provided the tools to help agencies work better. We are using those tools, and we appreciate your effort.

I do not have a grand scheme to offer for reorganizing the Government. The Clinton Administration has considered the question

¹ The prepared statement of Ms. Rivlin appears on page 110.

of macro reorganization, so to speak, especially as we considered the need for several cabinet departments. We have decided, however, that while the current organization may be far from perfect, we can make the most progress by giving priority to efforts to better define the missions of each major agency and make those agencies work more effectively to accomplish those missions.

Trust in Government is at an all-time low. Many people sound as though they want to close down Government altogether. Those same people rely heavily on Government services. We believe, as this Committee believes, that core Government services are a vital part of American life and they must be delivered effectively and efficiently. But we also need to save money. We need to cut the deficit. We can't afford waste or mismanagement in Government now, if we ever could.

From the beginning, this Administration has given high priority to questions of how to make Government work better. We have some successes to report, and we are in the middle of a continuing effort. We had Phase I of the National Performance Review (NPR) in which the President asked the Vice President to tackle the question of how to make Government work better. The Vice President threw himself into Phase I in a major way, and it has required a huge expenditure of time and energy from a very energetic man.

Phase I of the NPR involved teams of civil servants—Government workers themselves. For the most part, we didn't call in outside experts. Phase I focused on the "how" of Government—how to make Government programs function better.

We discovered that the Government didn't have customer standards. It needed them. We discovered that the control functions—budgeting, procurement, and headquarters staffing—required about a third of employees. That is too many. We discovered complex internal and external regulations. We discovered outdated services and structures.

Department-by-department, agency-by-agency, we worked to correct those things. The successes are quite specific. The Customs Service has eliminated regional offices. It has cut its headquarters staff like the FBI and a number of other agencies, it has reallocated staff to frontline operations.

The much-maligned Office of Safety and Health Administration has cut its inspector operations manual by more than three-quarters, freeing inspectors to apply common sense in protecting workers.

The Small Business Administration has reduced the size of its complex loan application to a single page. The Department of Agriculture has closed 1,200 field offices that reflected an antiquated structure, and we are, as you noted earlier, downsizing the Federal work force by approximately 273,000 FTEs. We are ahead of schedule with the downsizing effort as more than 100,000 FTEs have already been eliminated.

Following Phase I, we moved into Phase II of the NPR, which focused more on what agencies should do, not just on how they should do it. We took each major agency and asked: Do we need it? For each major activity, we asked: Can the private sector do it better? Can states and localities do it better?

We conducted an intensive review of five major agencies and put the results of that review in the President's 1996 budget. We are now moving on to examine the rest of the major agencies, and the small agencies as well. For small agencies we have been asking: Do we need them? Can they be consolidated?

For both major and small agencies, we started with the question: Do we need this agency? With respect to the major agencies, we decided that, in each case, there was a strong argument for retaining them. We believed that little would be gained from moving the boxes around, and instead decided to focus on defining the missions of individual agencies.

The Energy Department proposes to save about \$14 billion by privatizing the Naval Petroleum Reserve, ending the Clean Coal Program, selling uranium no longer needed for defense purposes, privatizing four power marketing agencies and significantly cutting costs through initiatives such as contract reform and restructuring the nuclear waste clean-up efforts.

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

Even more recently, NASA proposed to save \$8 billion by restructuring its field centers to reduce duplication and align the organization of NASA as a whole for a smaller, tighter mission. NASA will change the way it works with prime contractors by making its processes more results-oriented and returning NASA to its original role of a research and development agency.

I am most proud of our concept of performance partnerships, which I think are the answer to some of the proliferation of different programs that the Comptroller General alluded to. In our budget, we propose to take 271 programs and consolidate them into 27 performance partnerships with States and localities. The important concepts here are flexibility and accountability. In the past, a pot of money has gone to lots of different programs that often served the same clients and had complicated Federal rules. Our proposal would consolidate those programs. But we don't want to put the money into a block grant and say, "You can do anything you want with this, State or locality." We want to have States, and sometimes localities, work with the Federal Government to answer the following questions: What do we want to accomplish? How can we measure the results? Can we agree on a set of accountability standards by which the programs will be judged, and allow for maximum flexibility within jurisdictions?

We are working on performance partnerships in public health, education, job training, and other areas. We are also focusing on making decisions about when to privatize, when to corporatize, and when to contract out.

We are proud of how far we have come, Mr. Chairman, but we think there is a considerable unfinished agenda on which we want to work very closely with this Committee. There is civil service re-

form. There are new efforts at procurement reform. We need to work on the acquisition of information technology. We need to continue to focus on financial management, and we need to define what you have called a practical framework for integrating these various management improvements so that they fit together. As several of you have said, this is going to be a long process. It is not going to happen overnight, but I think the payoff for the American taxpayer could be substantial.

Thank you, Mr. Chairman.

Chairman ROTH. Thank you, Dr. Rivlin.

As a number of us have pointed out, we have both a short-term problem and a long-term one, and in many ways the long-term problem is by far the more important because what we are talking about is trying to create a comprehensive framework for Government in the 21st Century. One of my concerns is that in the short-term we are beginning to do some things. I applaud and congratulate the Administration for many of their initiatives in this area. I think we are going to see Congress taking a number of steps as well, and I applaud that.

At the same time, I am greatly concerned that we lay the long-term foundation for a smaller, less-obtrusive, but more effective Government because there is no question that we are dealing with disenchantment on the part of the American people. They do not see Government as either solving problems or giving them service.

So the question is how do we develop the framework, the comprehensive outline as to where we should proceed because it is going to take some doing once we have the basic outline.

We have done a lot of talking about creating some kind of a Commission. A number of senators alluded to that. Senator Glenn and I last year introduced legislation that would create a Commission and, as we said, we borrowed from the Army base closing to provide action, because all of us are concerned about wasting a lot of time with another study to put up on some shelf that is never looked at except every 10 years by the Government Affairs Committee.

So I wonder if you would comment—Alice I don't expect you to say the Administration is in support of it at this stage—but I wonder, Chuck, what you think about trying to create some kind of a bipartisan Commission to lay down the foundation, the framework of where we are going.

Mr. BOWSHER. I have always supported the idea of a bipartisan Commission on this because I think it does help. One, I think you need bipartisanship to achieve it. If you can start with a Commission, and get the right people on it with the right backgrounds. I think that it is awfully important that the people who are named to a Commission have Government background. In other words, I think sometimes bringing people in that have exclusively private sector background is not the best way to put together a Commission. I think you need both private sector and a Government background.

Two, I think they have done a lot of very good work here in the Administration on the NPR, both NPR I and NPR II, and maybe at some point here, towards the end, some kind of a Commission would also help pull together what Alice mentioned there. She said,

"How do you fit it all together at the end?" In other words, they are sorting out each of the departments by mission, whether they have the right mission, how well are they operating, what are their problems and everything like that.

At some point, though, then you have to address the 160-plus job-training programs that you have spread throughout the Government. How do you rationalize that? How do you do it? You have got some options over here like the Ash Council proposal, which I was always a little dubious of myself, having served at the Pentagon. Those super agencies, I think, to a great extent, were recommended by an Ash Council that was influenced by the McNamara era at a time when people thought the McNamara Department of Defense was kind of the way to do it.

I think that it gets you further away from the customer. I think it gets you into more layers. So there are a lot of things, I think, to be concerned about as you look at some of those what I call highly concentrated super agencies. So it is a sorting out of whether you want an organization that is closer to the customer or do you want it more grouped than that? There is no question that is one of the options. Or how do you pull this all together? I think a Commission could be helpful, but I think it should build on the work that has been done in the NPR effort. I really think that is important.

Chairman ROTH. I would certainly agree that we want to build on what the Executive Branch done, and a lot of work has been done up here on the Hill—

Mr. BOWSER. That is right.

Chairman ROTH [continuing]. And what your office has done. But it seems to me the number one goal is that we do need a comprehensive blueprint as to where we are going, and how do we get that? We also need to recognize that to get the job done is going to step on political toes, and I don't care who is in the White House. That is just a fact of life. It makes it very difficult to do some of the things that should be done, and a bipartisan Commission certainly would be helpful in that regard.

I also think it is important that we keep public interest. I think that is one thing the Hoover Commission was pretty successful at. They developed a lot of grassroots support for their reform, and I think we have that opportunity now, and perhaps the Commission could exploit that. But I would be interested in your comments, Dr. Rivlin.

Ms. RIVLIN. I think there are pros and cons to having a bipartisan commission. We thought about a bipartisan commission a couple of years ago when we were launching the NPR. Certainly, bipartisan support is needed for any major reorganization, and it might be good to turn the task over to a group of people who could focus on the macro-organization rather than on how the individual programs function.

The risk, however, is that you lose momentum. At the moment, I think it would be a shame to say there is going to be this commission that will report in a couple of years because I am afraid we would lose momentum within the Administration to focus on the very important things we are doing. There is much that needs to be done in terms of consolidation and reorganization within depart-

ments, along with coordination across departments. If a commission is established with the promise that it will somehow solve all of these problems in a couple of years, I am afraid we will lose the momentum we have now.

Chairman ROTH. I think that is a danger, although I have to say that I don't think it is going to stop this Congress from moving ahead with some of its proposals. I would certainly hope that the Administration would take the same attitude because there are a lot of things that need to be done short-term, and we do have momentum. We want to utilize it. But I think we also face the fact that, as we know, Washington's ability to stay focused on any one problem is pretty darn limited. We ought to be using the current interest, the current momentum, the current focus to build the kind of structure that will enable us to move forward because there is no way, with the best of intentions in the next 12 months or 2 years, the job is going to be completed, but I think you raise a very legitimate point.

Mr. BOWSHER. Could I make one point on the Commission?

Chairman ROTH. Sure.

Mr. BOWSHER. And you mentioned the Hoover Commission. You know there were two Hoover Commissions and one was really quite successful and had great impact and that was Hoover Commission No. 1. The second time it really didn't have the full support of the Executive Branch; in other words, the president set up Nelson Rockefeller with a separate Commission and everything like that, so you have a thing like that. If we ever move to a Commission here at this point in time, I think it is awfully important that the Executive Branch and the Congress are in agreement that this is the right way to go and that this is the right Commission.

If you get Commissions working for one or the other but not for both, I think you can end up like the Hoover Commission, the second one, where they really only got a few technical things implemented.

Chairman ROTH. There is no question but that is a challenge. I think we agree it has got to be bipartisan in approach.

Mr. BOWSHER. That is right.

Chairman ROTH. But, even further than that, it has to have the active support of those in both political parties. My time is almost up for the first round, but let me ask this question: If we were going to invent a Federal Executive Branch today from scratch, what organizing principles would you suggest we use as we begin to create the cabinet department? Broad missions? Specific problems? Particular constituency? Mr. Bows her?

Mr. BOWSHER. I think you need different ones for different areas. In other words, I think some of your delivery here has to be very customer based and, therefore, should be given a lot of thought as to how can you serve the customers better. I think that in pulling the Social Security Administration out, one of the things you were trying to do was to get closer to the customer in that specific area; have better systems over there, serve them better and everything like that.

In some of the other areas, you might want things to be more grouped, like programs and things like that. So I don't think there is any one principle that I would use in choosing the cabinets. I

would try to think through what is a natural grouping and what is important in each of those natural groupings.

Chairman ROTH. Let me ask you this question: Often there is a new problem and a new constituency develops for that problem, and so then they want a new agency to carry out their program. Some people argue that these new instrumentalities become more the handmaiden of the special interests, if you want to call it that, than the Government or the president is. Does that concern you?

Mr. BOWSHER. Oh, sure. I think in any time when you set up an organization you have to give that a lot of consideration. It concerned me when we were setting up the Veterans Administration.

Chairman ROTH. Dr. Rivlin?

Ms. RIVLIN. Yes, it concerns me, too. I would like to add two things to what the comptroller general said. First, we need to be very careful not to have departments be interest-group dominated, and that suggests some consolidation is useful as, indeed, the Defense Department model suggests. We believe in having a civilian head with particular services under that head, partly for the reason that the services might act as interest groups for themselves.

Second, we should not have too many people reporting to the President. The temptation to keep creating independent agencies is one that should be resisted. The burden of proof should be against creating yet another agency.

Chairman ROTH. Senator Glenn?

Senator GLENN. Thank you, Mr. Chairman.

I guess a very basic question is, if we are going to reorganize Government, do we do it along functional lines? Do we do it by evolution or revolution? If we evolve slowly, then we can slowly combine one function with another perhaps or do we go as some of these proposals have been and as some of us have talked about on the Committee from time-to-time. If you were going to reorganize Government, which the Chairman just asked, how would you go about it? Would you go the functional line? That breaks it down into about five or six different categories.

For instance, you could have human resources, natural resources, national security, domestic security and economic development. You can cover everything in Government under those. I think we can figure out a way to put everything in under that. That would make sort of a super cabinet, I guess, and I am not sure we want to put an additional level in.

On the other hand, we see things like you have pointed out, Mr. Bowsheer, I think in GAO's break-out of just natural resources environment function includes 6 cabinet departments, to some extent, 18 agencies and I don't even know how many Commissions. If it is going to be a functional arrangement, you need to get all of those together under some head so they can be coordinated properly. They are not being coordinated properly now. We all know that.

So, I guess, the first question is do we think in our efforts to reorganize we should be tilting toward a functional alignment as we reorganize departments or should we just sort of evolve as agencies and programs gradually can be combined on a lesser basis than that? I don't know whether you follow my logic. It is a very convoluted question.

Mr. BOWSHER. No, I follow it. I think the functional is one of the options. The one thing that worries me is getting too big of a conglomerate, you might say, under one roof, and then you start to build the layers and then pretty soon I don't think you are serving the people that you are trying to serve as well as maybe you could if you had a smaller, more customer-oriented department or agency. Those are the trade-offs. In other words, there is no question that sometimes if you go the latter route, you get more tied into a strong constituency and they can be very powerful. But I think the functional approach makes sense in some areas. I am not sure it makes sense for the whole Government to be lined up that way.

Chairman ROTH. Dr. Rivlin?

Ms. RIVLIN. I would agree with that. I think you start from a functional approach if you are trying to do a reorganization, but it seems to me there is this hope that we could find an organization in which the individual agency, however it was configured, operated all by itself and didn't have connections with other agencies. I don't believe that is possible. Our economy is too interrelated. National and international interests are increasingly interrelated. If you do it on a customer service line, there are functions to be talked about. If you do functions, you have lots of different customers. I don't believe we are going to find an organization that is perfect in the sense of having the boxes not relate to each other.

The other question is how many boxes do you want. It seems to me that the super agency has a lot of liabilities and we have probably reached our limit in terms of major agencies. The 13 or 14 major agencies we now have seems manageable. They may not be exactly the right ones, but 13 or 14 is a manageable number for a Government of this size.

Senator GLENN. I mentioned NPR in my opening statement and you mentioned it, too, and the success that it has had, and I think those successes have been overlooked, and I don't say this just in a political way of throwing roses at the Administration. I think there really have been some good things. We are cutting civil service employment. We are doing a lot of good things. We have had—well, I won't go into all of those details.

But the NPR concept, at least as I least supported it fully here and worked with you on a lot of different things on it, was that NPR could do a lot of things that were quite obvious to us. If we are going to get into a deeper reorganization, we need to go to something like a Commission that would not be looked at as just one Administration's proposal. We can do a lot of things yet under NPR. It seems to me that the Commission that we proposed a year or so ago—a couple of years ago here—is a good followup onto the NPR. That doesn't mean that NPR should be cut out of what they are doing. In fact, a commission might be someplace that you could fold some NPR activities into to make sure we do keep this momentum as we go along. Do you have any thoughts on that?

Ms. RIVLIN. I think that keeping the momentum is the important thing. NPR isn't something happening by itself, however. We have institutionalized the performance review. Phase II of the performance review is now proceeding, not with the special teams that characterized Phase I, but with a strong interaction between the Office of Management and Budget and the agencies themselves.

Phase II is beginning to be institutionalized in the Government, and that is what you really need.

Senator GLENN. Do you have plans, though, to take NPR to the point where eventually, once you get done with some of the things like cutting down civil service and so on, you would go on with an analysis of the whole Government and make recommendations out of NPR on reorganizing Government?

Ms. RIVLIN. We don't have plans for that at the moment.

Senator GLENN. That is where I was going with the next step.

Ms. RIVLIN. If one believes that a macro-reorganization of the major departments is necessary, then I think a commission might be the way to handle it. But the commission must not slow down other reinvention efforts. Getting the whole Government to continuously look at how can it do its job better is more important.

Senator GLENN. I just hope that, in the current efforts here and all of the current efforts to cut down the size of Government and cut our budget, I hope we are not making some major mistakes here. I think we need to sit back and reflect a little bit on some of these issues. One that came up just a couple of days ago in the Budget Committee is our efforts to try and get more money for IRS to do their compliance initiative, and it is working, and we had that money in the budget, and for the coming year it was, I think, \$461 million to go out and get the money that is owed the Government in taxes, we don't have the IRS personnel to go out and collect that right now. There is some \$138 billion owed the Government and most of that is in bankruptcies, but there is \$32 billion owed that is currently collectible, and that is what we worked several years here getting support and the funds to hire people to go out and get some of those billions because that is just money waiting to be collected.

We had that program underway. It has already collected in the first quarter of this year \$110 million in back taxes. It is estimated over 5 years the compliance initiative will collect \$9.4 billion. But the Budget Committee cut that out because it shows \$461 million as current spending—they want to cut that because it shows a reduced bottom line deficit this year. I think that is as pennywise and pound stupid as anything I can think of.

So there is this piranha-like feeding frenzy where we have to cut, cut, cut, cut, cut. I think we have to sit back a little bit in some of these areas being considered now, and this is one of them—reorganization of Government—and make sure that what we are doing is very, very carefully considered before we make any serious errors. We will address the IRS compliance initiative on the floor, and I hope we can reverse the Budget Committee cuts when the bill comes to the floor and we will have an amendment to that effect because we collect many times more than the money spent on that.

I am concerned about some of the efforts now to just whack this department, whack that department, whack something else without saying where their programs and functions are going to go. Cut DOE. Well, that doesn't mean the function of DOE with regard to nuclear weapons clean-up, which is one of their most expensive functions, that doesn't go away because we eliminate the department. Nuclear waste doesn't get cleaned up on its own. So we have

to think through the functional aspects of these departments, I think, before we decide that we just want to hack something off because a department may not satisfy our particular fancy of the moment.

That is more a statement than a question, obviously, but anyway.

Going back some 50 years, almost all significant changes in Federal Government's restructure have come about as a result of the work done by Federal Commissions. I think you, Dr. Rivlin, were a little bit lukewarm in your statement a moment ago as to whether you think we should have a bipartisan Commission or not. Did I misinterpret what you said or are you enthusiastic about a Commission which has worked well in the past?

Ms. RIVLIN. What I am lukewarm about, or at least skeptical about, is whether major reorganization at the department level is very important. I don't believe there is a perfect organization; the important thing is to define the missions of each of your organizations and get them to work better and more effectively, with fewer unnecessary layers. All of those things should be given priority. We are doing that. My only reservation about the commission is that it could divert attention from the more important tasks at hand.

Senator GLENN. I would like to see us take the more reflective approach on reorganization and consolidation, rather than just coming out on the floor, "Hey, let's eliminate the Energy Department because I don't like the way they didn't put something in my home state" or whatever is the usual basis for some of these decisions. Rather than just eliminating departments on that basis, I think we should, as a committee, if we are serious about these proposals, go into exactly what the functions of that department are right now, what functions can be done away with, and how can the remaining functions that are still necessary be combined better and more efficiently into some other department, if they are not functions that we are going to go keep.

I think we have to use that approach rather than just saying, "Well, we can save 'X' billion by cutting this department and that department." I think we have to be more reflective on defining what that department actually does or the agency actually does and be very careful about what we are eliminating or not eliminating.

My time is up on this panel.

Chairman ROTH. On that point, if I understand your testimony, that the Administration now is currently trying to define the missions of the various departments; is that correct?

Ms. RIVLIN. We have made great progress on that. As part of Phase I of the National Performance Review, each of the major departments looked very carefully at their own missions, and defined them more carefully. The cabinet secretaries have now written performance agreements with the President which are informing the rest of their operations. We have worked very hard to intensify this focus on the mission of each major department. John Koskinen might want to comment on it.

Chairman ROTH. I think it would be very helpful if this Committee could have copies of what the Administration sees as the mis-

sion of the other departments. Certainly, that is basic to any restructuring or reorganization.

Ms. RIVLIN. Right.¹

Chairman ROTH. Senator Akaka?

Senator AKAKA. Thank you very much, Mr. Chairman.

Mr. Bowsher and Dr. Rivlin, I am pleased that we seem to be in agreement that there have been a series of legislative efforts to strengthen the performance of the Federal Government, and this has been helpful.

My question is how do we ensure that the forthcoming reorganization does not lose sight of these important achievements like performance results, Chief Financial Officers Act, and the Paperwork Reduction Act?

Mr. BOWSHER. I think, as I said in one of the principles that I articulated there, is that the implementation is absolutely key as to how well you do any reorganization, and we have organizations today that operate very poorly in the areas that this Committee has legislated on, like the financial management reporting on results and things like that. It seems to me that this Committee and the counterpart committee and the authorizing committees should really be holding oversight hearings and asking for reports from the departments as to how well are those operations being improved, how well are the results being achieved, are they really achieving accountability of their funds, their assets and everything like that? Have they got some programs that really develop the capacity of their people; the training and everything like that? So I think that should all be very much a part of any reorganization plan here in the Federal Government.

Senator AKAKA. What are your views on that, Dr. Rivlin?

Ms. RIVLIN. I agree. We have to go ahead. Under any reorganization, you would need a chief financial officer for each of the major components, and you would need to be following the same rules of accountability. I think we are making a lot of progress on this front, perhaps more than the comptroller general's tone suggests. But we have to keep going ahead on all of these things, including paperwork reduction and not let a potential reorganization divert attention from this.

Senator AKAKA. I look upon both of you as experts in the Executive Branch with many ideas. The initiatives undertaken by the Administration defined a mission of individual agencies as important, and I appreciate the energy expended on this task by the Administration. I am hopeful that the next phase of thoroughly reviewing each department and agency will result in reorganization plans as innovative as the HUD plan.

My question is—this is trying to get at your expertise—how do we balance the immediate need to cut out waste and duplication with the long-range goal of a responsible, but streamlined Government?

Ms. RIVLIN. I wish there was an easy answer to that, Senator. I think we have to look at each major operation of Government or organization of Government and ask some fundamental questions: Do we need it? Can the private sector do it better? Can State and

¹ See pages 146–157.

local government do it better? If State and local government can't do it better, how can the Federal Government do it most effectively. I think that is what we are doing with the National Performance Review and our other continuing reviews. We are making progress. We need to keep making progress.

Mr. BOWSHER. I would, basically, agree with that.

Senator AKAKA. Dr. Rivlin, you mentioned that the first phase of the Administration's performance review is completed and that we are now in Phase II. You note that no department was targeted for elimination. How do you respond to those who have singled out specific departments for elimination?

Ms. RIVLIN. We addressed the question of elimination when we looked at individual departments. The Department of Energy, to which Senator Glenn has already referred, was one of the first agencies we looked at in Phase II. We took a very hard look at it. Do we need a Department of Energy? We decided that we do. If the department were to be eliminated, the programs that make up its major portfolio would have to be shifted to other agencies and there would be a real risk that those programs would operate less effectively. A large part of the Department of Energy could be shifted to the Department of Defense, but we think such a shift would slow down the efforts at reorganizing and improving weapons clean-up, the problem of clean-up from the Cold War, which is a major part of what DOE is doing.

As we went through department-by-department, we decided that the negatives of eliminating departments and shifting programs elsewhere were so large and interfered with making programs more effective that we didn't eliminate departments. Others might make a different judgment, but we did address the question.

Senator AKAKA. Thank you very much, Dr. Rivlin. Mr. Chairman, I thank you very much. I am going to have to leave for another engagement. Thank you.

Chairman ROTH. Thank you. I might point out that Senator Lieberman played a very active role in helping develop the legislation on a Commission, and we appreciate the contributions that he made in that regard. Senator Lieberman?

Senator LIEBERMAN. Thank you, Mr. Chairman. It is a pleasure to work with you, and I look forward to doing so again.

Welcome, Dr. Rivlin and Mr. Bowsher. I particularly want to welcome John Koskinen here. John and I, I would say to all Members of the Committee, are graduates of what might be called the Abraham A. Ribicoff School of Public Administration, having both had the pleasure of working on the staff of the distinguished former Senator; in fact, former chairman of this Committee. Obviously, one of the two of us went on from that to a successful life, and I am still looking for an opportunity to prove myself. John has had a great career in public and private sector since then, and I am delighted to see him at the table working with Dr. Rivlin.

Mr. KOSKINEN. Thank you, Senator.

Senator LIEBERMAN. Let me ask both Dr. Rivlin and Mr. Bowsher, a lot of us have been affected by David Osborne's writing on Government organization and Government delivery of services. One of the things he says is that the real engines of governmental reinvention are budgetary and personnel reforms, not that he is

against structural reforms, but these are the real priorities. I wonder, just as a general opener, how you feel about those priorities?

Mr. BOWSHER. I feel he is right on the people issue. In other words, I think that if you look at the successful Government organizations, you generally have very good leadership, with some well-trained people. They work together. We had the NASA illustration when Jim Webb ran it. He built a team at the top of three people. He was not an engineer or a technical person himself, as he said, but he knew how to put an organization together. He decided that contracting out was a good way of going, but he still had the skills within his organization to do that successfully.

I think lots of times in Government, where we contract out, we don't have the skills to really monitor how well that is going. I think, if you look at Admiral Rickover's program or the Polaris programs in the military, those were programs where, again, you had really good leadership. You had excellent people in the organization. They stayed for long periods of time. They worked successfully with the private sector, and they got the job done. So I think that is what we should be achieving is more of those kinds of things.

If you look at the original Social Security Administration years ago, it was very successful and one of the keys, if you read the history of the Social Security Administration, is how much investment they made in the people that worked there, training them before they dealt with the public, because they were scared back in the 1930s that the program would be thrown out; in other words, Social Security was not wholly accepted by everybody when it was created in the 1930s, and there was some real concern that if they didn't deliver the service well, maybe the program would not be continued.

Senator LIEBERMAN. Some still have that fear. [Laughter.]

Mr. BOWSHER. But, see, one of the criticisms now is some of the processing, some of the dealings and everything like that. Some of the very problems that they worried about, today, are still big problems over there at Social Security, in my estimation. So I think the people issue, the leadership, the training and everything like that is very key, both in the private sector and in the Government.

Senator LIEBERMAN. Dr. Rivlin, do you have a response?

Ms. RIVLIN. I would agree with all of that. I think the major thrust of what Osborne was saying is you need to have an organization with a well-defined mission. You need people who understand what that mission is and who are committed to it. You also need people who are committed to serving their customers and getting feedback from those same customers. If you have all of that, you have a well-functioning organization and the question of how the boxes relate to each other becomes much less important.

Senator LIEBERMAN. I suppose if we do the relationship of the boxes intelligently, it clarifies the mission, which, as you correctly state, is a precondition to the good personnel services.

I do want to just digress from my order for a moment. You talked about the customers. I think one of the great achievements of the NPR, which I don't know that many people know about, is this extraordinarily detailed set of customer standards. Again, maybe I should ask you this question of how this is working, but I went over it a while ago and the public would be really encouraged—maybe

they would be skeptical, too—that we have got these standards that say, within “X” minutes, if you go into a Post Office, for instance, you have got to get what you need. You have got to get a response from an agency within a certain number of days. If it is working, this is really a dramatic reorientation of Federal service and very exciting. I am curious if you have any sense of how it is working now.

Ms. RIVLIN. I agree with you. If we truly improve customer service, we will have done a lot.

Senator LIEBERMAN. Right.

Ms. RIVLIN. I think it is a little early to tell how well it is working, but I was in a meeting yesterday with the Vice President, where we looked at the United Kingdom’s comparable effort to improve customer service. They are ahead of us. They have found that in any individual employment or Social Security office, having the customer service standards—and how well they are doing against the standards—written up on the wall has resulted in much positive feedback from customers and the public at large. I hope we can do as well as they have.

Senator LIEBERMAN. Is any of that happening now, as far as you know, in Federal agencies? In other words, are they measuring themselves on the wall as against the standard?

Ms. RIVLIN. I don’t know whether they are actually measuring themselves on the wall, but I came out of that meeting wanting to find out.

Senator LIEBERMAN. Good. Let me come to something Mr. Bowsher mentioned, which is the contracting out. This Committee spent some time over the years on this question, and I would say a generalized concern about the amount of consulting to the Federal Government that goes on. It has been said that EPA and a number of other agencies have more outside contractors than they do have employees; that is, outside contractors and employees working for those contractors, than they have employees working for the agency. Has there been an analysis of whether these outside contractors save money? Obviously, I presume we lose something in accountability or do we? I am curious.

Mr. BOWSHER. We have both. We have successes where we have good accountability, and we get the job done in a couple of illustrations I mentioned earlier. We also have situations like in the Department of Energy where, I think, in some of the large operations there involving nuclear weapons we didn’t keep very good control over the contractors and, therefore, we ended up with huge problems, both in the environment and also even in the technical area, and it is work that we have done a lot of work in here, and in our High-Risk Series, we have got two or three of the high-risk things go right to that very issue, and that is that the contracting out hasn’t worked well, and the Federal Government is not really on top of the situation. That is the kind of an area—

Senator LIEBERMAN. Which are those?

Mr. BOWSHER. Well, some of the parts at DOE, some of the parts of EPA, some of the contracting at NASA now, unfortunately.

Senator LIEBERMAN. This is somewhat related. Obviously, there is a lot of talk at all levels of Government about privatizing. I am curious as to whether either of you could cite some examples, and

I am interested in this, of areas of the Federal Government where privatization has worked. Are we not doing it enough to make a—I am going beyond the independent contractors. I am talking about really taking a Government service and deciding this can be better done in the private sector.

Mr. BOWSER. One thing I think people should realize is that we never really nationalized as many operations as other countries, like Great Britain, and they have been going through a great deal of privatization in their economy.

We have some situations now that I know the Congress is looking at and considering like Bonneville, TVA, Amtrak. One of the big problems you have there, and that is, I think, very important, is you have got balance sheets that are going to be very hard to privatize. In other words, you have got big costs sitting on those balance sheets from those nuclear power plants that are not generating revenue, and so it is going to be very hard to do any privatization, even if you decide to do it, unless you deal with some of those problems right off the bat.

I think Amtrak is the same situation. We set up a national passenger railroad system in 1971 for certain reasons. We have issued reports that point out how much money is being lost. You might cite the need for subsidy on some of those long lines, but if you wanted to concentrate on your corridors and get those really modernized with modern equipment and everything like that, I suspect you could privatize, much as we did Conrail.

So I think there are some real opportunities here, but it isn't going to be opportunities that are going to be able to be done in the next 6 months, let's say, without cleaning up some of the problems that we probably—

Senator LIEBERMAN. Dr. Rivlin, how about that? Do we have opportunities for privatization?

Ms. RIVLIN. Yes, I think we do, but they are fairly limited for the reasons the comptroller general has enumerated.

In our budget, we did not propose privatizing Bonneville for exactly those reasons. They have a huge debt, and there are some other reasons.

We did, however, propose privatizing four other power marketing administrations, with buying preference given to the customers. We think those are viable propositions. Another example of a viable proposition is our proposal to privatize the Naval Petroleum Reserve. In the past, it may have made sense to have the Federal Government operating an oil field, but it is unclear as to whether it makes sense now. We think that is a very good candidate for privatization.

Senator LIEBERMAN. Thank you. Thank you, Mr. Chairman.

Chairman ROTH. We will have a second round of 5 minutes, and then we will leave it open for 2 or 3 days for questions submitted in writing.

One of the concerns that has been expressed is that small independent agencies that are not represented in the cabinet do not actually report to the president, not only this president but any president, in any meaningful way. Do you believe this to be true, to any degree? Does being independent of a cabinet department have an impact on accountability to the president? And what about regu-

latory agencies headed by bipartisan Commissions, whom do the employees of these entities work for—the President, the Commissioners, special interests? Are there any independent agencies that ought to be candidates for inclusion in any existing or reorganized departments, Dr. Rivlin?

Ms. RIVLIN. I am going to ask John Koskinen to respond to this question because he has been running our review of small agencies. But I think we have too many small agencies and some of them could be folded into cabinet departments to make them more accountable. Some of the small agencies are doing a good job; their reports are public and they are certainly accountable to the Office of Management and Budget. There is often no reason to bother the President with many of these agencies so long as they are doing their limited functions as efficiently as they can.

The independent regulatory agencies are a different question. They are, in a sense, responsible to Congress. In general, Congress created them and must hold them accountable.

John?

Mr. KOSKINEN. We have taken a look at all independent agencies and commissions. There are 132 different institutions. Again, the question is one of accountability. If you took any one of these smaller agencies and put it into a large cabinet agency, it would be, as Mr. Bowsher noted, far enough down in the realm that you could argue that it might have even less accountability or visibility there than in its present location. We have been trying to look at that question.

Our broader focus has been to look at which of these agencies could be consolidated or terminated. As we roll out and complete our review in Phase II of the major agencies, we will have a series of reports on recommendations for either terminations or consolidations of a number of these smaller agencies. However, as Director Rivlin noted, the regulatory agencies, by definition, are meant to be independent, outside of the realm of special interests or response directly to political interests. They are supposed to be regulating with the public interest in mind.

Chairman ROTH. Mr. Bowsher?

Mr. BOWSHER. I think they described it well.

Chairman ROTH. Let me ask a couple other questions. I think it was back in the Nixon days they created the regional offices throughout the country, which have grown to become quite considerable. Are they a necessary layer of Government today or does modern technology make it possible to bring more decision-making closer to home, Mr. Bowsher?

Mr. BOWSHER. I think that was a dumb move at the time, even though I was a member of the Nixon Administration, and I think it is even less justifiable today to have that kind of layer, unless you have special needs in an individual department or in an individual program area. I think you need a field organization, but the idea of putting that regional structure in there, like he did, or his Administration did there in the 1970s, I never understood that.

Chairman ROTH. With modern technology, wouldn't it be able to do it closer to home?

Mr. BOWSHER. I think in most cases it would.

Mr. KOSKINEN. As part of the National Performance Review, both in Phase I and now in Phase II, the agencies are taking a look at the issue of regional offices. In some of the agencies we have already talked about, there has been a focus on eliminating that layer of management or at least consolidating the offices to a more manageable number so that you do not automatically have 10 regional offices for every agency.

Chairman ROTH. Could you submit to me what numbers we do have in these regional offices?

Mr. KOSKINEN. We would be happy to supply that information.¹

Chairman ROTH. By agency. One further question, Mr. Bowsher. Regarding the creation of these Government corporations—what advice would you have for us in regard about the concern that there is a risk, as some people put it, of privatizing the profits, but socializing the risks? Is that a significant problem?

Mr. BOWSHER. Yes. I think we saw that in the S&L banking crisis. And like in the farm credit, if you think about that situation back there. We had to put in \$4 billion to bail out some of those institutions in the early 1980s and everything like that.

I think, again, you need very good accountability. If you set up a Government corporation, I think, one, generally, it should be one where they have got a program where they are bringing in revenues and trying to either break even or make a profit, and I think that you need very good accountability, and I think you need good Congressional oversight. I think one thing we learned there in some of those programs is some of those GSEs had been created, but they had not actually been reviewed by Congress in many, many years, and I think that was a big mistake.

I think, also, one of the things that always worries me is the compensation of some of those organizations. It seems to get out of hand. They get some very special privileges from the Federal Government, such as if they don't get the full support of their paper, you might say, when they raise it in New York and that, but they get so close to it that they really practically have a Government guarantee. A lot of people in the markets view it that way, and then for people to make million-dollar salaries, I don't think the average taxpayer understands that. So I think those are some of the things that Congress ought to be looking at periodically, if you do set up Government corporations.

Chairman ROTH. Senator Glenn?

Senator GLENN. Thank you, Mr. Chairman. Senator Lieberman mentioned a couple of things under NPR, and I think the NPR has been hidden under a bushel a little bit here. I think it has had some very good successes. Some others that I just had noted that I wanted to make sure we put in the record. The Department of Agriculture, NPR has worked closely with Congress to pass legislation to reorganize the department, closed hundreds of field and regional offices, downsized the Department.

Under HUD, the NPR has proposed streamlining and consolidating a number of housing grant programs. On Advisory Committees that I mentioned in my opening statement, the NPR has terminated roughly 350 out of 1,200 Federal advisory panels, boards and

¹ See pages 158-209.

Commissions and saved nearly \$30 million in that area. On full-time Federal employee downsizing, I mentioned that as the most significant accomplishment probably, we have cut about 110,000 civil service positions out heading for 272,000, and we are on schedule to do that. Under HHS, the Administration just announced the consolidation of 170 different HHS grant programs into just five performance grant programs, and on procurement, of course, the Administration worked closely with us and other members to pass the 1994 Federal Acquisition Streamlining Act, which is just beginning to take place now.

There may be some other proposals that haven't worked quite as well. This proposal to privatize the air traffic control system I am not sure I agree with that one, and I am just as happy it has not been implemented. I think if we could just free up the Aviation Trust Fund and let it be used for what it was intended to be used for instead of making it part of the bottom-line unified budget, I think we could do some of the things that privatizing in that area would already do.

I look at the airway system of the country as being sort of a three-dimensional highway system. I see no reason why we should privatize the airway system any more than we should privatize all of the Federal roads in the country. So that is just a different way of looking at it, I guess.

On trust funds, though, to come back to that just a second, I would presume you would agree that the trust funds should—or not agree—I do not think the trust funds should be all considered in the unified budget now. I have changed my view on that through the years. Do you think any of the trust funds, Dr. Rivlin, should be taken out from under the unified budget?

Ms. RIVLIN. No, I don't, Senator. I think trust funds should be very visible in the budget. We should know what is coming in, what is coming out, and how they are operating. But I do think there has to be a place where the whole operation of the U.S. Government is seen together and that is the unified budget.

Senator GLENN. I have supported it through the years on that basis, but what has happened is the money we collect and that people think goes into a trust fund for a certain purpose never gets used for that. We have a 10 percent tax on airline tickets that can't be used to improve the airways and airports of the country, which are desperately in need of help, because it is going to show a bigger deficit as part of the unified budget. So I have shifted my views on that. I probably would vote to take some of these things out of the unified budget.

I know that is very controversial, and we are not here to necessarily—

Mr. BOWSHER. May I say something on that, Senator Glenn?

Senator GLENN. Yes, will you comment on that.

Mr. BOWSHER. That is, that I think you should keep it in the unified budget, but show in reporting or as Alice said the exhibits, just how the trust funds are working, so that the people have a good understanding. I think one of the real problems we have had is that in summarizing our budget or reporting the financial results at the end of the fiscal year, which we have not done a good deal of at the Federal level, I don't think we have really explained how

the trust funds work and, therefore, people have become more and more suspicious of how it really works.

We have put together in some years past some of the formats of how this could be shown better, and I think maybe the Congress ought to consider that before they take out the trust funds.

Senator GLENN. Maybe there is a different way of reporting it, but right now you dare not touch any of the trust funds because it is going to show a bigger deficit on the bottom, and so you can't spend money even for upgrading the airway's computer systems out here at Leesburg and places like that, getting modern technology in there, which would make the airways safer. We are just not able to do it because we don't want to show a bigger bottom-line deficit, even though we collect 10 percent on every airline ticket bought by anybody in this room that is supposed to go to upgrade the airways, and yet we can't spend the money to do it.

I think we ought to either make some way of presenting it where we can use that money for what it is collected for and intended for or take it out of the unified budget and let the chips fall where they may on that one.

Just one further question, Dr. Rivlin. There is a long history of a series of Government Reorganization Commissions. We had the first Hoover Commission, which was very good. President Truman and the Congress implemented many of its recommendations. The second Hoover Commission didn't do quite as much, the Ash Council, the Carter reorganization effort, Grace Commission, we followed it up when this Committee passed out the Department of Veterans Affairs Act, and one of the things the Committee put in it—Section 17 of that act—gave the president the ability to create a bipartisan, 16-member National Commission on Executive Organization, and that would have operated for 1 year. President Reagan chose not to appoint the board. Bush had the responsibility to trigger the Commission or kill it by mid-April of 1989. He chose to kill it. So we lost a number of years on having some of these things considered.

NPR is moving along, as I said, and I agree with that, and I don't want to interfere with its progress, but do you think the Administration would welcome a redo of this National Commission on Executive Organization such as the one we proposed in the Veterans Affairs' legislation? That was passed and became law, but was never implemented. We added a couple of things 2 years ago in the proposal designed by Senator Roth and I. We had, basically, that same National Commission proposal plus the "fast track" legislative process, plus they could recommend certain programs be eliminated, also. So it expanded a little on the proposal in the VA legislation.

Would you welcome that kind of authority or do you think it is premature?

Ms. RIVLIN. We would be happy to discuss it with you. I don't want to create an instant Administration response on the spot here. We have thought, up to now, that it was important to get on with the NPR and not to divert attention from it, but we would be very happy to work with you in thinking through whether this would be useful and how it would work.

Senator GLENN. Thank you. My time is up. Thank you.

Chairman ROTH. Dr. Rivlin, it has been pointed out several times that the Federal employment has been downsized by 272,000. Of that 272,000, something like 208,000 are in the Department of Defense; isn't that correct? So that is something like 60,000 are being reduced from non-Defense agencies?

Ms. RIVLIN. John may have the numbers at his fingertips, but I think it is important to remember that some civilian agencies are increasing in size because they have new responsibilities. That is particularly true of the Justice Department. Other agencies are shrinking more rapidly than those numbers would suggest.

Mr. KOSKINEN. Two hundred seventy two thousand is the goal under the Work Force Restructuring Act that we are headed toward. We have not cut 272,000 employees yet. We had, as Senator Glenn said, a decline of 102,000 by the end of last fiscal year. We think we are at about 150,000 now. If the ratios hold and as the projections go, I think we would be closer to 100,000—give or take a little—out of the civilian side and about 170,000 to 180,000 out of Defense. But, again, those are all projections, and we won't know how they will actually fall out until we are done. As Director Rivlin noted, however, the decline on the civilian side is net of, at this point, about 20,000 to 25,000 FTEs who have been added to meet particular initiatives such as improving the ability to control the borders.

Chairman ROTH. I do think it is important, though, to understand that much of the cutback is Department of Defense.

Mr. KOSKINEN. There is no doubt about that.

Senator GLENN. Could I just make one 30-second addition here?

Chairman ROTH. Sure.

Senator GLENN. One thing we are trying to do in this workforce reduction, too, and I would welcome a report on it for the record here because I am not up-to-date on how this is going. One of the problems is the GS structure is all misaligned. Out in the private industry, the average is a boss for about every 12 to 15 employees. In the Federal Government, we have gotten to where the ratio of supervisors to employees was about 1 to 7. There was no need for it to be that way. It just drifted that way through the years. We had too many GS-13, 14, 15s. The buy-out authority that we gave to help accomplish some of these things was set up the way it was so you could use it to create a restructuring and cut out that lopsided boss-to-employee ratio.

Now, I think, from previous conversations several months ago, that is going well, and I know we want to move on this morning, but could you give us a report on that back for the Committee record so we will see how that is going now that we have had about 110,000 employees leave or whatever the figure was a moment ago? Is that accomplishing this other purpose of lessening the supervisor to employee ratio?

Ms. RIVLIN. We will be happy to give you a report.¹ I think we are making progress. The supervisory control span has been broadened, and we will give you a report on that. But one thing we have discovered is that you can't just look at a GS rating and decide whether a person is a supervisor. We had to look at situations like

¹ See pages 210-215.

the National Institutes of Health where a GS-15, for instance, might be a very distinguished scientist who wasn't supervising anybody except for a lab technician. But that doesn't necessarily mean that person should be supervising somebody.

Senator GLENN. We recognize that going in, and I think we wrote the legislation so you could take into account those situations.

Chairman ROTH. I want to thank the panel very much for being here today. We may have further questions which will be submitted in writing.

Thank you very much.

Ms. RIVLIN. Thank you, Mr. Chairman.

Mr. BOWSER. Thank you.

Chairman ROTH. We now have a very distinguished second panel starting with Scott Fosler, who is president of the National Academy of Public Administration; Alan Dean, a fellow of the National Academy of Public Administration.

We are particularly pleased to have with us Andrew Foster, who is chief executive of the Audit Commission for the United Kingdom. As I understand it, Mr. Foster's agency, the Audit Commission, audits Britain's local governments, including their performance and publishes what is known as League Tables, comparing similar cities in the performance in various areas.

We are also very pleased to have two distinguished professors who were at one time associated with this Committee: Paul Light, who is professor of public affairs, at the Hubert Humphrey Institute of Public Affairs, University of Minnesota; and my old friend, Dr. Robert Gilmour, who is a professor of political science at the University of Connecticut.

Mr. Fosler, I would ask that you begin. We would ask that your statements be limited to 5 minutes. I will tell you that you are on Senate TV, so the audience is much larger than those here. But it is a pleasure to welcome each and every one of you.

TESTIMONY OF SCOTT FOSLER,¹ PRESIDENT OF THE NATIONAL ACADEMY OF PUBLIC ADMINISTRATION

Mr. FOSLER. Thank you very much. As you know, the National Academy of Public Administration is an independent, nonpartisan, nonprofit organization chartered by Congress to identify emerging issues of governance and provide practical assistance to Federal, State and local governments on how to improve their performance.

Over the past 2 decades, the Academy has conducted numerous studies on Executive Branch organization. I would like to draw on those studies and offer 8 points.

First, reorganization should be viewed in the context of broader efforts to restructure and improve the performance of Government. The term "reorganization" generally refers to changing the structure of departments and agencies and the location of programs and functions. While this is important, it is but one dimension of organizational performance, which also includes mission, systems, processes, and people, and all of these dimensions need to be viewed comprehensively in the broader context of restructuring Government.

¹ The prepared statement of Mr. Fosler appears on page 115.

Second, the central question for any proposed organization or restructuring should be: what is the purpose? Reasons for reorganizing the Executive Branch generally fall into five categories: to change or to accommodate the mission; to improve effectiveness; to reduce cost; to emphasize certain key values or to achieve specific political objectives. While each of these may have their legitimacy, we urge that the primary test of purpose be performance; meaning appropriate missions effectively achieved at the lowest possible cost.

Third, the Federal Government should learn from the mistakes and successes of the private sector and other governments and attempt to leap-frog to the stage of restructuring that focuses on performance. For many organizations, the most dangerous stage involves deep, cost-driven cuts into their existing structure and resources. This often results in a smaller version of what didn't work before or, even worse, a smaller organization minus some of the principal assets that permitted the larger organization to function even at subpar performance. This is the stage that is frequently called "amputation before diagnosis." In the end, most successful organizations return to the fundamentals of performance: mission, capacity and results.

Fourth, successful restructuring requires a framework or at least a robust set of principles to give coherence to a wide range of actions. In an appendix to the testimony of the Academy, we provide a framework for the Committee's consideration.

It begins by asking what is the public purpose, and it goes on to ask how that can best be achieved by State and local government, the private sector or civil society. Then, once a legitimate Federal role is identified, there is a range of organizational options across a spectrum, from classic bureaus and executive departments to various forms of independent agencies, Government corporations, foundations and institutes, and Government-sponsored enterprises.

There are fairly well-developed criteria for assessing the various proposals to eliminate cabinet departments, but the criteria are not well established for considering many of the other organizational options.

We would mention in this regard that several foreign governments which have restructured in recent years, including the United Kingdom and New Zealand, have tended to move in the direction of creating relatively independent operating agencies, and with promising results. Such agencies typically are assigned focussed missions and headed by professional executives to negotiate performance agreements with their ministries, specifying targeted objectives and indicators in exchange for appropriations. Then they are held accountable for results.

I think one of the key things about this experience is that it suggests that it is important for us to look carefully at our principal operating organizations and what units they should be before getting into too much detail with regard to how they ought to be grouped within cabinets and what cabinet departments should or should not exist.

Fifth, any reorganization should account for the numerous initiatives that are already underway to restructure the Federal Government or otherwise improve its performance. As the discussion this

morning has already indicated, there is a wide range of these initiatives: the Chief Financial Officers Act, the Government Management Reform Act and so on. The serious danger at this point is that these various efforts will conflict with one another and otherwise overload the circuits.

Sixth, the framework of principals of restructuring should be adapted to specific organizations, policy areas and circumstances. The Academy has done several studies commissioned by the Congress to look specifically at such agencies as the Federal Emergency Management Agency, HUD, EPA, and the GAO. The key point here is that we need to look at these organizations and policy areas in a comprehensive way.

Seventh, the Federal Government needs a strategy for restructuring, which includes, but is not limited to, reorganization. As you have indicated, Mr. Chairman, this requires both looking at the immediate short-term issues that have to be dealt with immediately, but also considering the longer-range issues that we need to look at with a greater degree of comprehensiveness and consideration.

Eighth and, finally, the Federal Government needs the capacity to design and implement plans for reorganization and restructuring. We are concerned that we don't currently have this capacity, in terms of both people with the necessary skills to actually do the work and also to design and implement some of these complex systems that are required for reorganization and restructuring.

Let me say in conclusion, Mr. Chairman, that I believe the Government Performance and Results Act holds high promise for attempting to focus all of these various efforts on the issue of identifying results to be achieved and then holding agencies accountable for them.

Alan Dean will look more specifically at some of the organizational options and criteria for reorganization.

Chairman ROTH. Thank you. Incidentally, your full statement, of course, will be included in the record as if read.

Mr. Dean?

TESTIMONY OF ALAN L. DEAN,¹ SENIOR FELLOW AND FORMER CHAIRMAN, BOARD OF TRUSTEES, NATIONAL ACADEMY OF PUBLIC ADMINISTRATION

Mr. DEAN. Mr. Chairman, it is a pleasure to, again, appear before this Committee. In past years, I have had many exciting encounters, and it is almost nostalgic to be back here today.

It is a pleasure to be before this Committee because of the importance of the issues that we are discussing this morning. What I am going to say today will be based heavily on personal experience.

I go back to the first Hoover Commission, where I was the assistant to the Vice Chairman. I sat in on the meetings of the Hoover Commission and, subsequently, was involved in the implementation of the Hoover Commission's recommendations. I want to say at this point, and you will hear later in my statement, that the idea of reviving an organization of the kind of the first Hoover Commission, equipping it in the way it was, assuring the bipartisanship it had and generating the cooperation between the Legisla-

¹The prepared statement of Mr. Dean appears on page 127.

tive and Executive Branches is a very promising avenue, and I am delighted to see that the chairman and the members of the Committee have so much interest in it.

But I also was in charge of implementing President Nixon's departmental reorganization, which was based on the Ash Council recommendations, but substantially refined. Subsequently, I have had the privilege of being an assistant secretary of the Department of Transportation, in charge of its organization and administration. It is from these experiences that I am going to base most of my remarks, as well as a number of Academy studies referred to by Scott Fosler.

I am going to address first your question of what should be placed in the Executive Department. The Constitution only has two little references to Executive Departments. That is a very lucky thing. It left it to the Congress and the President to decide how many departments there should be, what they should do, and how they should be organized. Even the brilliant founders of 1887 would have had trouble predicting what we really need today.

The trouble is that our Executive Departments have grown from 4 to 14. They have been created at different times. They vary widely in size and in importance. They vary widely in terms of internal structure and approaches to field organizations, management traditions and culture. What that does is present a real problem for the president and for the Committees of Congress in designing solutions that really will suit all of the departments.

A number of efforts have been made to do this: the first Hoover Commission, the work of the Ash Council, the work of President Nixon. Out of these efforts have come some useful doctrines, which I recommend to the Committee as of continuing value.

One is you only create a department when functions become so important, so complex, and have such impact on the Nation that you need a cabinet secretary close to the president, who can provide the leadership needed to have an important segment of Government activity performed well. This is called organization by major purpose, and it was strongly endorsed by the Nixon work. Most of our successful departments are currently organized by major purpose.

Unfortunately, that is not true of all. Some are clientele-oriented departments, which were organized like the original Department of Labor, to give labor a voice in the cabinet, or the recent Department of Veterans Affairs.

Most of the comprehensive studies reject that approach for the reason mentioned earlier in the hearings. These departments tend to be unduly influenced and concerned with only a segment of our population. A bona fide Executive Department, like Defense or State or Transportation, should be concerned with all of the citizens and be dealing with a complex of programs which impact on all the citizens.

Some departments, like Interior, have the promise to become full-fledged major purpose agencies. It could become a Department of Natural Resources, but for all kinds of complicated reasons, the reforms have never been approved, even though about five presidents have recommended such a department.

It makes no sense to have the Forest Service in Agriculture and to have the Bureau of Land Management in Interior. You can't even tell when you are standing on Forest Service land or BLM land, yet, we have never been able to pull them together. On the Columbia River, alternate dams are run and maintained by the Corps of Engineers and the Bureau of Reclamation, greatly complicating the process of effective management of the Federal interests in that important river.

Departments like Commerce or Interior do not necessarily require abolition. What the Committee should be considering is how to build them into bona fide major purpose departments, thus, enhancing their effectiveness.

One other thing, I am not worried about super departments. We have to have most of the Government's functions under cabinet secretaries, but we can't have too many cabinet secretaries. We should regard the cabinet secretaries as vice presidents for major areas of Government concern. So organized, you can then build a structure underneath the secretaries with maximum flexibility along the lines that some European countries are producing.

Let me turn quickly to independent agencies. My time is running. I would only put in an independent agency status an organization that just doesn't lend itself to departmental management. This would include cross-cutting agencies like OMB or OPM. Some of the regulatory Commissions may warrant permanent independence, but in recent years they have been gradually disappearing. Even the Interstate Commerce Commission, the oldest of those regulatory Commissions, appears to be on its last legs.

The question can be asked, "Do we need as many regulatory Commissions as we now have?" There are also little outfits like the Railroad Retirement Board, and influential little agencies like the Small Business Administration, where, if it were not for certain groups interested in their independence, they would surely belong in a department.

Finally, when do you have a Government corporation? Whenever you have a Government activity which can support itself from fees or sale of services without taxpayer dollars, or at least has the potential of doing that in the future, and you have a semi-commercial activity, the entity has to have flexibility that is usually accorded a regular agency. It has got to be able to spend its receipts, for example. Unfortunately, now we have some corporations that shouldn't be so classified and four or five other major activities of the Government which should be incorporated.

I appeal to the Committee to have hearings on this subject and to develop a follow-on statute to supplement the old Government Corporation Control Act. I think you could make a tremendous contribution to the effective use of these entities by such an action.

One last comment. I have already endorsed the idea of the Commission, but the President needs more help in carrying out his responsibilities as Chief Executive. OMB does not now have the management capability to do the kinds of things the Committee wants them to do. Many of us who have served in OMB would like to see a new, separate Office of Federal Management headed by a director in the executive office of the president and equipped with a staff

able to address, on a sustained and systematic and cross-governmental basis, issues of the kind we have been discussing today.

Thank you, Mr. Chairman.

Chairman ROTH. Thank you, Mr. Dean. Mr. Foster, it is indeed a pleasure to have you here today.

**TESTIMONY OF ANDREW FOSTER,¹ CHIEF EXECUTIVE OF THE
AUDIT COMMISSION, UNITED KINGDOM**

Mr. FOSTER. Thank you, Chairman. I am delighted to be here. As you already said, I am the chief executive of the Audit Commission in England, which appoints all auditors for local government and the Health Service. We conduct 10 major scrutinies of public services a year, and that gives us quite a lot of experience in the things you are talking about.

A particular topical interest at the moment is the requirement that we have had to establish performance indicators and customer standards for major public services delivered at a local level and then to make sure that they are publicized locally and then published nationally as well; a development which has caused a lot of interest in our country.

My own personal background is of working in a range of these different Government services. As many of you will know, the British Public Service has been going through major change over the last 10 years, particularly from initiatives coming from Prime Minister Thatcher and many of these have been of far-reaching standard, albeit, we had very many more services in Government control than you would in the U.S. These have been continued by Prime Minister Major with a particular development of an initiative called the Citizen's Charter, which puts a great deal of store around customer services and the type of quality of service as citizens can expect.

Many approaches have been used, and there is not enough time to cover them, but they range from competitive tendering of all services offered by Government, market testing of services, a much more external scrutiny of service by bodies such as my own and a clearer move toward stronger performance management.

But the one that I was going to give you quickly the headlines about, which has probably been the most far-reaching, is something which we call the Next Steps Agency program. We use agency in a different context than you do and, basically, this is taking an operational function of a Government department and making it into a freestanding agency and giving management much greater freedom to manage that service but around the contract that it established between the Government and this agency. So the key change is a change from a command relationship between the politicians and the management to a contract relationship.

If you look at what the Government did, it started cautiously, but over time we are now in a position where something like 100 agencies of this sort exist and where 66 percent of central civil service staff are employed in such agencies. This was starting from a baseline in our country where there were 50 Government departments and there were 600,000 staff in Government employ.

¹The prepared statement of Mr. Foster appears on page 139.

The key pivot of this relationship is a framework document that spells out the requirements of the agency from Government and, clearly, this is about the objectives of the service, and this is where one of the major benefits accrues because there is a need to look very carefully and clearly at what it is that the Government requires and how it is going to be delivered. Interestingly and threateningly for Government employees, many of the chief executives of these agencies were then hired by open competition on short-term contracts and they were heavily incentivized by way of performance-related pay against the key objectives that were in their framework document.

Key to the agencies has been an improvement in customer service. Clearly, the Government was chasing not only an improvement in quality, but very much looking to downsize by way of improvement in efficiency, one of the other key advantages of improvement in efficiency. One of the other key advantages was seen to be the opportunity for an executive to be freer from political interference in those issues which did not need it. So that has been the key objectives, and one of the things that clearly has been chased here is a reduction in central staff, and the Government has been chasing broadly a target of 25 percent reduction in central staffing through this.

In the short time available, let me finish by saying the lessons 5 years on in this particular program and it is still early to be conclusive. The prime benefit has been the greater clarity of what it is that the Government requires that is good for the politicians and that is good for management, Point 1.

Point 2, management typically has responded very positively to greater freedom over the large range of logistical matters which did not require political involvement.

The third thing of great benefit has been, and reference has been made earlier on to the publication of performance standards available in Post Offices, railway stations, Social Security benefit agencies and the right to complain if your office is not meeting those standards. Cynicism about it to start off with, but over time, a beginning of a belief that it matters.

The major problem, and it is a real problem, has been when things go wrong in an agency, what is the definition of what is strategic, which seems to be the politician's responsibility, and what is operational, and we have had major problem in our Prisons Agency and in our Child Benefits Agency, and it won't surprise you to know that the top management would be saying it was the responsibility of the politicians and the politicians would be saying it was the other way around. That is the major problem.

All together, though, an objective and analytic assessment of this first 5 years is of a positive start, but still some time to run before you could give a conclusive answer.

Chairman ROTH. Thank you, Mr. Foster.

Professor, it is a pleasure to have you. I hope you are not grading us today, you and Dr. Gilmour.

TESTIMONY OF PAUL C. LIGHT,¹ PROFESSOR OF PUBLIC AFFAIRS AND PLANNING, HUBERT H. HUMPHREY INSTITUTE OF PUBLIC AFFAIRS, UNIVERSITY OF MINNESOTA

Mr. LIGHT. It is a delight for me to be back before the Committee. I haven't done quite so well as a former staffer as Senator Lieberman, but there is always hope.

I do want to start out by thanking the Committee and distinguished Chairman for the invitation to testify today. I will be brief and submit my statement for the record.

I want to apologize off the bat for all of the weight loss analogies that I am about to use. I think a weight loss analogy is appropriate. That is what the Budget Committees are talking about; trying to drop some weight in a very great hurry. But we know from personal experience, many of us, that we can lose a great deal of weight in a short period, but find it back on our bodies in very short order if we don't pay attention to both how to lose it and how to keep it off, and that is what I am going to talk about a little bit today largely based on my research dealing with the changing structure of the Federal Government that was published earlier this year by the Brookings Institution and the Government's Institute in a book called *Thickening Government*.

Let me just briefly summarize the four main conclusions of the work. The first is simply that the thickening of Government, which means basically the widening of agencies, layers within agencies and also the growth between the top and the bottom, the creation of management layers, this thickening is basically inexorable. It occurs under the best of conditions and under the worst of conditions, under the closest scrutiny, under the most lax of scrutiny. It is an inexorable principle, I believe, of organizational life, and it is a principle which gets extreme endorsement in a public setting, I am afraid.

The second conclusion is that this thickening has changed the basic shape of Government—the Federal Government, in particular—from a basic pyramid in the 1950s to more of a pentagonal shape today. We project that, should current trends continue, by the Year 2020, we will have a Federal Government that is circular in shape with no one at the bottom any longer there to deliver services. The services will, of course, still be delivered, they will just be delivered by State and local government contractors and non-profits.

A third major conclusion is that the thickening has occurred under both parties, when the president has been in charge and when the Congress has been more ascendant.

And, No. 4, that departments have not done particularly well when they have been given the freedom to determine their own shape.

While I admire Vice President Gore's effort to change the span of control principle, for example, from a 1 to 7, pushing it to a broader 1 to 15 ratio, the anecdotal evidence suggests that much of the improvement, if you will, is by a relabeling of management positions as nonmanagerial, but keeping those people basically still

¹ The prepared statement of Mr. Light appears on page 130.

in the chain-of-command doing managerial functions but under a new label.

There are two issues the Committee faces as you confront the thickening of Government. No. 1 is how to take the weight off, how to thin Government, basically, and, No. 2, how to keep it off once you put in the tremendous political effort to reduce the weight.

Let me talk briefly about losing weight. I believe that there is a real danger in the kind of quick cutting that we are talking about right now in the budget process. We have good evidence in the past that such quick-cut efforts actually can lead to the very thickening that they are designed to attack.

I most certainly agree with this Committee's past efforts, and I endorse the current efforts to push forward with a new Commission for addressing executive management and organization.

Personally, I do not believe that the appropriate analogy is the Hoover Commission. I am more drawn to the analogy of the National Commission on Social Security Reform in 1983, which was headed by Alan Greenspan; also, a bipartisan Commission, very intense, moving quickly, not to disturb momentum that is already underway, but very problem oriented. I think if the issue is for a Commission to thin Government, we ought to do it quickly. We ought to move smartly, and we ought to use the Military Base Closure Commission device.

From a political standpoint, I think it is attractive to think about a Commission analogy to Greenspan rather than Hoover, and I encourage the Committee to consider that as a possible way to package this idea.

Once we have taken off the weight, whatever we do, whether it is through a Commission or through other deliberative devices, we need to talk about ways to keep the weight off. That involves strengthening our oversight capacity, rather like putting a lock on the refrigerator and a video camera in the kitchen. We need to watch carefully what the departments and agencies of Government are doing, and this Committee has a long and distinguished track record in doing so.

I think we, also, need to consider many of the proposals here for establishing service standards and hold departments accountable to customers, clients, audience, whatever you want to call them as your metaphor of choice.

Personally, I think we also need to address questions of life tenure in career service. Speaking as a professor of public affairs with full tenure at the University of Minnesota, this is a difficult issue for me to endorse. I don't think that life tenure is a good thing in academic settings, and I am not sure it is such a good thing in any setting, including the public service. There may be a midpoint between life tenure and quick firing capacity, and that may be in the kind of temporary contract approaches that are being used in the British higher service.

At any rate, I encourage the Committee, as it moves forward, to return to some of its own ideas regarding the Commission. I don't think it needs to slow down momentum, and I encourage you to consider ways, once you take the weight off, to continue the vigilance needed to keep it off.

Chairman ROTH. Thank you, Dr. Light. Dr. Gilmour?

**TESTIMONY OF ROBERT S. GILMOUR,¹ PROFESSOR OF
POLITICAL SCIENCE, UNIVERSITY OF CONNECTICUT**

Mr. GILMOUR. Mr. Chairman, it is a pleasure to be back in these Committee chambers, a bit of new experience, though, to be on this side of the dais. It is a pleasurable one. I am pleased to have been invited to testify.

This morning I thought it useful just to spend a moment on considering some of the purposes of reorganization that often get lost in the shuffle a little as you proceed to move to solutions. The one that comes up again and again, inescapably, is accountability of our Government. Every time there is a problem, the first thing that is done is to move to find the source of the problem and to assess blame. That, it seems, won't go away.

Second, the need to deal fairly with citizens again and again referred to here as customers where, in fact, the Federal Government still has services to dispense, perhaps we can find some customers. But, for many of us, say, in an IRS audit that I experienced last summer or being stopped on the high seas by the United States Coast Guard, it is a little difficult to think of ourselves as customers. Moreover, we are citizens and taxpayers and regulated parties. The services are a very special sort that come from the Government and overridingly we want to be treated, I think, fairly, with dignity and, by and large, I think we are. But that is a key purpose.

Further, we want to achieve, obviously, more effective Government performance along with that to coordinate Government operations in a large and still, to some extent, growing Government.

The way we have attempted historically to achieve the purpose of accountability is through a hierarchy. From the very first session of Congress, many of the members there had been at the Constitutional Convention and looked back to that experience, but had, in their own mind, the idea of executive hierarchy and that kind of hierarchy is with us today.

In the private sector, we are constantly told hierarchy is something of a bad word. It is strict. It is inflexible. It is not meant for today's technological changer and so forth.

In the public sector, though, hierarchy has a different meaning, and there is a different need for it. It is to achieve and to locate accountability effectively. Because of that, over the years, we have developed a number of principles that relate to hierarchy delegating clearly powers of Government or authority to the president and to his subordinates down a clear line of authority with a preference for single administrators as opposed to boards and Commissions, although there have, obviously, been exceptions.

This is because we want to hold Executive Branch officers accountable, accountable under law by reviewing courts. Further, for the basic functions or core functions of Government, we have been reluctant to delegate them outside the Government in any way, to keep the inherently governmental functions inside the hierarchy of Government, again, to assure accountability.

As to dealing fairly with citizens, our system of public law and our administrative law has developed a series of safeguards to pro-

¹The prepared statement of Mr. Gilmour appears on page 134.

tect citizens from arbitrary and unaccountable Government power. With the growth of the administrative state this past century, it has been incredibly important and, I think, both the Congress and the courts have moved in this direction protecting citizens from unfairness at the hands of Government authority.

We have developed a Notice of Pending Proceedings, openness of Government's proceedings, fair procedures, impartiality of administrative decision-makers and then subject them to review by judiciary. That gets to the third point of performing effectively and coordinating.

A great urge in contemporary Government has been to contract out. This is really not privatizing, as it is often called. All we have to do is look to who pays the bill. But this kind of so-called privatizing through contracts has been extensively used, and there are problems for accountability and for the fairness in dealing with citizens or even customers. Widespread privatization diminishes political control of the actual instruments of Government authority contractors.

Excessive reliance on Government contract diminishes legal accountability. The protections of the Constitution, the Civil Rights Act, protections that would protect citizens in the Governmental setting may or may not apply. Often they are lost.

In addition, extensive Government by private vendor can open the way to fraud, and I think, as most of us on the panel know, that the Chairman here was instrumental in pointing out many of those problems in Defense contracts of the early 1980s.

Contracting to private parties reduces Constitutional and statutory rights for citizens because, again, they will not necessarily apply with private contractors. So far there has been no agency really to monitor these problems of contracting out and besides this Committee, there has been no overall agency to take a comprehensive view of the organization of Government.

In this connection and, given a recollection for the limited resources of the Committee and staff time with many other things to do, I strongly support your call for and Senator Glenn's call for a bipartisan Commission to take a comprehensive look to continue the momentum that is already underway and to restructure the Government in accord with the kinds of purposes and needs that you determine are most pressing.

Thank you.

Chairman ROTH. Thank you, Dr. Gilmour.

Should we be concerned that there is insufficient accountability in the Executive Branch to the president? If so, why is this a problem and how do we minimize it? Mr. Fosler?

Mr. FOSLER. I think we should be concerned about that. I think the growth of Government over the years in terms of both the scope and the number of agencies and the thickening of positions, as Paul Light has indicated, poses a problem of accountability. We have such a wide array of kinds of organizations, not all of which have been carefully thought out. Their relationships among one another are not carefully thought out and, perhaps most importantly, we have not been clear on what the missions are for these agencies and their programs, and how their performance is to be measured and by what process. Ultimately, understanding clearly what the

mission is, giving flexibility to managers to manage to that mission, and then holding them strictly accountable for results objectively assessed is the way that we are going to achieve accountability both for the president and also for the Congress.

Mr. DEAN. May I add to that?

Chairman ROTH. Mr. Dean?

Mr. DEAN. I think there are two approaches that needs to be followed. One is to help give the president an Executive Branch structure that he can, in fact, hold accountable. Having watched the results of creating a Department of Defense, the comptroller general talked about its size, but I don't think, in spite of some DOD problems, anyone would want to divide the Air Force, the Navy and the Army into three separate departments and expect the president to get coordinated weapons systems developed. It just wouldn't work. But that is now the case in much of the civil side. The president cannot look to a single accountable cabinet officer. He can in Transportation. He can in Veterans Affairs, even though it is a dubious department. But many of the freestanding independent agencies simply, as has been pointed out, don't report to the president. He barely knows they are there.

In the Nixon Administration, when we met with the Railroad Retirement Board, and the president had been in office for 2 years, they had never before had a visitation from an official representing the executive office of the president. They are in Chicago.

The second thing I have already mentioned. The budget process is effective in setting funding priorities. It is not effective in improving management. Having served 14 years in the Bureau of the Budget and OMB, I can testify to that. Budgets are held to tight cycles, heavy workload and bottom-line expectations. Improving management and organization is frequently a multi-year proposition, and it frequently does not produce any immediate dollar savings. Even in a department, if you combine budget with the people working on improved management, the management people get swallowed up in a very short period of time. That is why many of us, who have served in the Office of Management and Budget, hope this Committee will give serious attention to the Academy's proposal of 1983 that an Office of Federal Management, that can really track the quality of management, be established. By the way, Leon Panetta, when he was in Congress, introduced such a bill.

Chairman ROTH. Let me ask this question: Is it better to have a larger number of smaller, more mission-specific cabinet departments and agencies or a smaller number consolidated around more broadly defined objectives? Dr. Gilmour?

Mr. GILMOUR. You know, Mr. Chairman, I think it may not matter so much as having a clear line of authority from the president through principal officers down through subordinates. It will matter some as to how you hand out different departmental responsibilities. But more important is the fact that you have most, except where there are special and clear exceptions for Government corporations and certain Commissions, where you have most of the Executive Branch clearly coordinated through the cabinet structure. That is critical.

It is also critical to have real attention paid to the number of contractor employees. In the Department of Energy, EPA, NASA,

TVA, there are reported numbers of ratios running 10/20 to 1 contract workers for Government employees. The likelihood that anyone—the president or anyone else—can coordinate disaggregated, small unit departments, independent agencies with many, many contractors on that level is very low.

Chairman ROTH. Yes, Dr. Light?

Mr. LIGHT. I guess I would point out that at this table you have practically every management reform philosophy represented and, in fact, when you look at philosophies of reform, you are really best off adopting an anthropological or geological approach. There are these eras and different views that you can dig down through, and they are all represented here. Personally, I do not believe that accountability resides either in structure or an Office of Federal Management or in rules. I think it resides in the performance of agencies towards specific mission-driven goals, and I think that is where the Government Results and Performance Act was headed and that represents a different management philosophy, perhaps, from more traditional views of hierarchy as being the answer or a single chain-of-command as being the answer. What do we want the agency to do? What is its mission? What are reasonable and negotiable performance standards that we can use to track performance and let that drive us to decide where an agency is independent or privatized or part of a large conglomerate department.

To me, the accountability resides in the performance, and that is fundamentally a question of mission first.

Mr. DEAN. Mr. Chairman, could I supplement that a little?

Chairman ROTH. Yes, please.

Mr. DEAN. As it will be obvious from my statement, I strongly believe in a relatively small number of major purpose-oriented cabinet departments as the main mechanism. I might say—it appears in my statement, but I want to call it to the Committee's attention—that I wrote a paper about 17 pages length a short term ago at an Academy panel's request, which goes into more detail how the departments got to be how they are and how they can be effectively improved. It includes some approaches to strengthening internal structure, because we have a number of departments which have grown like topsy. Some have never made a thorough effort to restructure and design the department to get improved performance.

Agriculture is pointing with pride what it has been doing about 50 years too late. Its number of field offices is incredible, even with the reductions that they are now making. The assistant secretary for Management was pointing with pride a few days ago they are reducing the number of operating entities from 50 to 30. The Department of Transportation, which is basically well designed, has never had more than 10 operating agencies and it is at least as large as the Department of Agriculture and has at least as important a mission.

Mr. FOSLER. Mr. Chairman, if I might address your question.

Chairman ROTH. Sure.

Mr. FOSLER. I think we have a lot to learn from our colleagues abroad who have been addressing these issues, and I think Mr. Foster's testimony in that regard is quite helpful. It may be that by focusing first on departments and the number and size of de-

partments we may be missing what some of these other experiences are finding, which is that we should focus first on the basic operating units. What should those operating units be? What is their appropriate mission? How can they best be defined? How is their performance going to be judged? And then consider what is the best approach for either grouping those functions or putting them under a given cabinet-level department.

That experience is reinforced by what Mr. Foster has said here today, and I think is reflected in some other countries that have followed this process such as New Zealand.

Mr. FOSTER. Mr. Chairman, if I could just say I agree with Professor Light. Certainly, our experience has been that its key processes about performance is a critical issue, and I think very much there has been a move away from a sense of a major approach to structure as being the critical approach, I mean, an evolutionary approach to structure. I mean, candidly, our experience in the earliest period of doing that was the people did take their eye off the ball of performance and, whatever people may like to say about the grand aspiration of any function, people do start worrying about their job, who they are going to be employed by, whether they are still going to be there, and that becomes the focus of attention, and so we did it on a step-by-step basis working through agencies, but actually looking at what service the citizen received and working back up the organization as a result of that.

That is not to deny the fact that there needs to be a comprehensive framework, but not coming at it from that end.

Mr. LIGHT. May I just supplement?

Chairman ROTH. Sure.

Mr. LIGHT. One of the most important pieces of work that we did on the thickening of Government was to look at 13 frontline Federal jobs from air traffic controllers to VA Hospital nurses and to try to determine what the effect of thickening was on the performance of their jobs. I think that is the approach to take here; to take these essential services that we are providing and ask what structure best serves the delivery of air traffic control or customs inspection or whatever. That seems, to me, to be what would be the underlying driver for your Commission, should you re-task and move forward with it.

Chairman ROTH. Mr. Foster, I would like to ask you a couple questions if I could. Could you give us some detail regarding what is in an agency framework document. How specific is it regarding the agency's mission, its organization, its operation and is that subject to negotiation by a so-called chief executive?

Mr. FOSTER. Yes. I mean, the framework document comes out of the major review of that function, which the politicians carry out with their top policy advisors to look and see what it is that they want from that service, and it very much goes back to some of the questions I heard being put in the first set of evidence earlier on: Is the service necessary at all? Are there other ways of meeting it? Is it best formed and delivered through an agency function? So you start with a review of what it is the Government wants.

Frankly, that is one of the major benefits that comes out because, candidly, when you do do that sort of thorough review, you quite often find there are some things that have been accreted and no

longer is important. So that is the first stage of it and then it does have to spell out what the mission is. It does have to spell out a vision of where that service is going and then critically some key performance indicators and performance standards have to be spelled out as to what levels of accuracy you are looking for; how frequently customers or citizens will be seen, depending upon what the service is, and then the finance for that is put on a contracted basis with a threat or a possibility that someone other than the Government agency might do the work if the standards fall or there may be some financial penalty if a reasonable standard is not met.

Then that is the key contract document that exists between the Government and its agency and, clearly, the chief executive and the small management board, which they would form would have a great deal of dialogue with the Government and its advisors as to what was going to be in that document, but that is the key tool around which then services are assessed.

Chairman ROTH. Let me ask you this: How are your agency chief executives selected? Are they political appointees or civil servants or something else? What kind of retention rights do they maintain to their jobs? Do they leave if there is a change? I take it from your testimony they don't leave if there is a change in Government.

Mr. FOSTER. No.

Chairman ROTH. Can they be fired?

Mr. FOSTER. Sure. The important thing is to see that the top end of the British civil service has historically been nonpolitically aligned and, therefore, they have not changed with the change of Administration, Point 1.

Point 2, this is clearly a very new development for us and those people are permanent secretaries, as such. Sir Humphrey, as you would understand them from TV programs, would have been tenured appointments over time. Clearly, it was a total change of culture with our new agencies and, typically, these people would have been on 3-, 4- or 5-year contracts, not to be aligned with a political term, but just with an assessment of how the person was doing.

Typically, executive search firms would have been used to hire people. There would have been open advertisement, executive search and then a full interviewing process and, typically, ordinary pay structures that would have been in place in the Government have been no longer used, and there has been a much higher level of remuneration available for people coming in with the basis that it could be an attraction for people to come in from the private sector. Now the truth is that a large number of the jobs have actually gone to middle and top Government servants, but there have also been people come in from the military, from the private sector and elsewhere, and it is possible for people to be fired. Either they contract not to be renewed—it is usually a 3-year or 4-year or 5-year contract with a possibility of the contract rolling on. I mean I am on such a contract. And, thereafter, you can not have your contract renewed or, on an annual review of your incentive, you could just have your contract ceased. So it changes the whole basis of whether the top-end of the public service in our country was totally tenured

and you had a job for life, frankly, to the other extreme, where you were as good as your last year's performance.

Chairman ROTH. One further question. What flexibilities does the chief executive have in respect to employees of the agency? Can he hire, fire, promote? Can he give incentives? Is the pay different?

Mr. FOSTER. Very substantial, and this is probably from a manager's point of view. I mean I am, historically, a public service manager and have run an agency. The biggest attraction for top managers is that you are deregulated on pay principally and you can change your number of employees within a given budget against the service. You can vary the pay levels. You can vary the numbers. The how of how the service is delivered, as long as it meets the specification, is in your hands.

So, all of a sudden, where we have had a historically bureaucratic, very regulated pay system, all of a sudden, in an agency, it is over to the top management to change pay levels and number levels to meet their requirements, and that, frankly, has been one of the things that has been the growth and has released energy in these organizations and has allowed lesser numbers of people to very often do better work.

Chairman ROTH. I see we have a vote. Maybe that is a relief for you. [Laughter.]

Gentlemen, I do have a number of further questions, but what I would like to do is submit them to you in writing, and I would appreciate if you would give us your answers. I appreciate your patience for the lateness of the hour, but I think your testimony and prepared statements have, indeed, been very helpful, and we look forward to continuing the dialogue as we proceed with, hopefully, positive steps in reorganizing Government. It is particularly a pleasure to have you here, Mr. Foster.

Mr. FOSTER. Thank you.

Chairman ROTH. Thank you, gentlemen, very much. We look forward to seeing you again.

Chairman ROTH. The Committee is adjourned.

[Whereupon, at 12:42 p.m., the Committee was adjourned.]

EXECUTIVE BRANCH REORGANIZATION: VARIOUS PROPOSALS

THURSDAY, MAY 18, 1995

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 9:32 a.m., in room SD-342, Dirksen Senate Office Building, Hon. William V. Roth, Jr., Chairman of the Committee, presiding.

Present: Senators Roth and Glenn.

OPENING STATEMENT OF CHAIRMAN ROTH

Chairman ROTH. The Committee will please be in order. I will proceed with my opening statement. I am not certain whether Senator Glenn is able to be with us this morning or not.

This is, of course, the second of two hearings this week in which the Committee on Governmental Affairs is considering the restructuring of the executive branch of the Federal Government.

Yesterday we heard from Government officials and experts in the field of public administration about strategic management principles that should be followed when restructuring large, complex organizations.

Today we will hear from the authors of various proposals about their specific plans to downsize and restructure Federal agencies and programs.

This is a unique moment in the history of this Committee. The level of interest in restructuring has never been greater. This interest is the product of citizen frustration with excessive size, cost, intrusiveness, and poor performance of our Government.

There is no longer any question that the time has come to thoroughly re-examine the fundamental missions and functions of the entire Government. The public demands decisive action to hasten the transition from a Government designed for the industrial age of the mid-20th century to one that will meet the needs of the information age in the 21st century.

Facilitating this transition has long been a priority of this Committee, and we welcome the unprecedented interest from so many members of the Senate and the House and from so many public policy groups.

Now, the management experts we heard from yesterday and others we have consulted with agree on several main points:

One is that restructuring requires a framework. It should be guided by a strategy that is broader than simply redrawing boxes on an organizational chart or cutting budgets to meet deficit reduc-

tion targets. A consistent set of management principles is needed to give coherence to a wide range of complex actions and to guide such decisions as to what functions should be privatized, when is it proper to establish a Government corporation, and what kind of field structure works best for different types of programs.

Another point of agreement is that form follows function. While it is important to consider the structure of the Government of the future, it would be premature to design a detailed organization chart before rethinking what missions and functions should comprise the Government of the 21st century.

A third point of agreement is that the greatest potential for cost savings will come from eliminating entire functions and programs which have outlived their usefulness. Bureaucracy is like crabgrass; if only trimmed, it inevitably creeps back, often growing thicker and more deeply rooted than before. That is why outmoded and redundant functions must be eliminated entirely, roots and all.

The proposals we will hear today raise serious, thought-provoking questions about the size and scope of Government activity. Their authors have performed invaluable service by identifying scores of programs and agencies which arguably are no longer needed and are serious candidates for elimination or consolidation. They have also suggested creative alternatives to deliver services more effectively and responsively, and at less cost.

The appetite for downsizing in Washington today is almost entirely budget-driven. Of course, deficit reduction is an extremely important goal. But we must not lose touch with the American people's concern for a Government that not only costs less but for one that works better. That is why we need to establish a sound basis for restructuring at the outset. If we do not, we will risk ending up with a Government that gives us even worse service than it does now and produces even greater citizen frustration.

As the Committee with jurisdiction over the structure and management practices of the executive branch, including the creation and reorganization of Cabinet Departments, it is our responsibility to develop a framework that will shape the debate around the key issues and requirements that will ultimately determine success or failure in restructuring.

One potential element of such a framework which received broad support in yesterday's hearing was the notion of creating a commission to conduct a comprehensive study of missions, functions, and structures, with legally binding action triggers, like those used for military base closings. This is an approach that I have advocated in previous sessions of Congress and that merits serious consideration today. With a thoughtfully structured work plan, a commission could give these issues the thorough airing they need, without slowing down the momentum for change in Congress.

Senator Glenn, I proceeded. You missed my opening statement.

Senator GLENN. I could hardly bear to tear myself away, Mr. Chairman.

Chairman ROTH. Please proceed.

OPENING STATEMENT OF SENATOR GLENN

Senator GLENN. Mr. Chairman, we agree on many of these issues concerning government reorganization. We worked together on them for many years here, so I am sorry I was a little late.

I do welcome the witnesses and look forward to hearing their testimony before our second hearing on Government reorganization.

For the benefit of some of the members testifying today, I wanted to point out that the Committee, as the Chairman says, has a long-standing bipartisan tradition of examining Federal Government reorganization issues. Six years ago, this Committee created a bipartisan commission in law to make recommendations on reorganizing the Federal Government. But there was a trigger in the law which then-President Bush needed to activate in order for the commission to go into effect, and he chose not to activate it, which I think was unfortunate because I think we would have been able to make significant progress otherwise.

In the last Congress, Senator Roth and I authored legislation to create a similar bipartisan commission, but this time we gave it greater authority. Its recommendations would have to be considered by Congress under a fast-track, expedited procedure. We passed a bill through Committee but were unable to put it into law. So we have a real bipartisan tradition of working together on this issue, and my hope is that it will continue in the months ahead.

Government reorganization must be done in a comprehensive and deliberate manner. It is not an issue prone to scoring fast-break political points, and it should not be a furtive exercise where we just rearrange bureaucratic boxes, giving them new forwarding addresses, and shipping them to somebody else in the Federal bureaucracy.

Clearly, we need to reorganize, consolidate, even eliminate a number of the programs and operations of the Federal Government. Yesterday I announced that I will be shortly introducing legislation to sunset obsolete Federal advisory committees and boards. I questioned in that hearing whether we really need the Idaho-Eastern Oregon Potato Committee, the Colorado Potato Administrative Committee, the State of Washington Potato Committee, and the Oregon-California Potato Committee. I believe that they all could be peeled off and consolidated into one.

While it is one thing to consolidate and eliminate a few advisory committees, doing the same thing for four Cabinet Departments is another matter entirely. And the order of magnitude is that much greater and the impact that much more.

I think when we examine these issues, we need to define the functions that those Departments perform, all their activities. We need to define which of those functions are excess and should be cut, which are good functions that serve the people of the country well and should be kept. And then if there are enough to retain the Department, fine; if not, figure out exactly where those good functions should go. And that is the way we should approach it.

The Commerce Department, for example, Senator Roth and I have introduced legislation in the past to reorganize and streamline Commerce's functions. It badly needs it. But there are questions I had then, and still have now—I know some of the testimony this morning will deal with NOAA, the National Oceanic and At-

mospheric Administration. You know, we just made changes in the agency; it's working well. It is probably the finest weather-predicting and climate-predicting group and in the whole world. Are we going to let some reorganization storm front sweep it out from Commerce and deposit it somewhere on its own out in the bureaucratic ocean? Or, as I have proposed in the past, do we anchor it to a place like the EPA that can use NOAA's scientific and technical capacity to monitor changes in air and water quality and global warming? I think we have to consider these matters when we are talking about eliminating Departments in order to keep the good agencies and programs that are in the Department or move them to a place where they can be better utilized.

Another is the Patent and Trademark Office. Where does it belong? If not in Commerce, where else? Maybe some of today's witnesses have answers to these questions.

These questions do not have sound-bite answers. The task of Government consolidation and reorganization is arduous and it is tedious. The past history of Government reorganization efforts shows that it requires both the executive and legislative branches working together with the same commitment. Otherwise, the effort is doomed to failure.

Often the reduced costs and improved efficiencies of these reorganizations do not show up for years, and sometimes in the short term, costs actually go up. My fear is that after unveiling of the budget in both the House and Senate, a race will now be on to see who can be the biggest and the baddest agency-cutting samurai.

I hope that as we proceed in the months ahead, more thought will be given to ways to consolidate and eliminate Federal programs and agencies that both save money and improve Government effectiveness.

I would note, Mr. Chairman, that through the years all the advances in reorganizing Government have almost always come from, as you pointed out yesterday—and I did, too—a commission such as we have proposed. We had the first Hoover Commission, which Truman took the advice of, and it had 27 different reorganizations plans, 20 of which became effective. We had the second Hoover Commission, but it did not do quite that well. The Ash Commission had some things come out of its work. The Carter reorganization effort, the Grace Commission, all of these have been the impetus or the starting point for doing the major restructuring of Government that has been done through the years.

When the new administration came in this time, the Clinton administration, they proposed "Reinventing Government," the concept of that, and a lot of good things have come from that. I do not want to throw those things out. I hope that we can continue some of those efforts. They want to go further. We heard testimony about its progress yesterday.

The Department of Agriculture, NPR has reorganized much of that Department, closed hundreds of field offices and the regional offices. Under HUD, the NPR has proposed streamlining and consolidating a number of the housing grant programs. Advisory Committees, NPR has terminated roughly 350 out of 1,200 Federal advisory panels, boards, and commissions, saving nearly \$30 million. The full-time employees, the civil service is downsizing. We had

testimony yesterday where the Administration thinks they have downsized about 110,000, with the goal being 272,000, and at the same time, as I pointed out yesterday, restructuring the civil service ranks so that we are not so top-heavy with management, which was one of the objectives, also.

HHS has announced consolidation of 170 different grant programs into five performance grants. Procurement, we had new legislation passed on that, the 1994 Federal Acquisition Streamlining Act.

So, Mr. Chairman, I am 100 percent for reorganizing, but I caution that we should do it in a very, very studied manner and not just do it in the interest of budget slashing at the moment. I pointed out a couple of areas yesterday where I think we have gone too far on some of the things the Budget Committee did in cutting out IRS money that is going out to get compliance, where we are getting far, far more back than the amounts that are being spent on it. And I am sure we will be addressing that on the floor when the Budget Act comes up because I think that was penny-wise and pound-foolish.

So I want to see us continue the good things that are being done and at the same time consider the bigger programs of redoing Government, reorganizing, Government and I agree with the Chairman that I think a commission to really study this, not just go pell-mell into it, but really study this, as past commissions have done and done a good job on, is the way we should be going. I am glad to work together with the Chairman in seeing that that happens.

Thank you.

Chairman ROTH. Thank you, Senator Glenn.

As you mentioned, we have been a long-time supporter of a commission to study and come up with recommendations to restructure, and I was pleased, when the Department of Veterans Affairs was created, that we did include a provision that gave the next President the option to create a commission.

At the election of President Bush, I did raise the matter with the White House, and their concern—and I think this is something we should keep in mind here as we proceed ahead—their concern with another commission was that it had no teeth, no means or ability of making sure that the recommendations were acted upon. And they were not willing to devote time and attention and political muscle on another study that would end up on the shelf. That was, of course, the reason I came up with a concept that we ought to borrow from the military base closing so that we ensure that if we create a commission, action will be taken on those recommendations and that it is just not another study for academia to read.

I am delighted to have two of our distinguished colleagues, Senator Spencer Abraham and Senator Lauch Faircloth, who will be representing the majority leader's Task Force on Agency Terminations. Gentlemen, we will, of course, include your full statements as if read, and we would appreciate it if you would take 10 minutes to summarize your remarks.

Senator Abraham, I understand you are the lead, that you do have another commitment. So please proceed and welcome. It is a pleasure to have you.

TESTIMONY OF HON. SPENCER ABRAHAM,¹ U.S. SENATOR
FROM THE STATE OF MICHIGAN

Senator ABRAHAM. Thank you very much, Mr. Chairman, and thank you also, Senator Glenn. I want to apologize for the fact that, unfortunately, when you are 100th in seniority, you find that you have very little influence when your Committees meet, and I have very little on mine. So I have to be to another one shortly. But I want to congratulate you for having these hearings and for the interest that this Committee has in the whole concept of reorganizing the Federal Government. I look forward to working with this Committee, and I know that Senator Faircloth will speak to the same. Our goal is to work together as much as we can to try to address some of these problems, because I think Government consolidation is an important crisis facing this country. I believe it is crucial that we consolidate a lot of the programs, agencies, departments and so on of the Federal Government in order to run the Government more efficiently and effectively, to balance the budget, to recapture the proper relationship between Federal and State powers, and to provide the American people with much needed tax relief.

To begin with, Mr. Chairman, I think we should keep in mind that when Theodore Roosevelt took office at the beginning of this century 94 years ago, his Cabinet had 9 members. When President Roosevelt sat down with his Cabinet for a meeting, he needed just 9 chairs to accommodate everyone, including the Postmaster General. If he desired an impromptu gathering, he could just walk to the Old Executive Office Building next door because the offices of almost the entire executive branch were located there.

Today, on the other hand, we have 14 Cabinet Departments spread all over the District of Columbia, not to mention hundreds of boards, agencies, and commissions below the Cabinet level. The Old Executive Office Building now only houses a portion of the President's own staff.

Now, obviously, things have changed since 1900, and so some of these expansions are justifiable. However, I believe that this growth in the Federal Government size and scope has put an enormous tax and debt burden on our economy, in turn producing lower living standards and fewer job opportunities for our people.

The Federal budget in 1901 consumed just over 2 percent of total national income. Today it spends almost 25 cents for every dollar we produce. In the meantime, a budget that routinely enjoyed surpluses of 10 percent or more during Roosevelt's tenure has not seen the black in 25 years.

Mr. Chairman, in my view, this history shows that big Government brings both high taxes and budget deficits. So as we seek to balance the budget, I believe we should downsize Government, targeting departments and agencies whose activities are either unnecessary, duplicative, or simply outside constitutional limits of Federal power.

This description has in recent years fit an increasing portion of the Federal Government. But Majority Leader Bob Dole has set the standard by calling for elimination of four Cabinet Departments—

¹ The prepared statement of Senator Abraham appears on page 219.

Commerce, Energy, Housing and Urban Development, and Education. These four Departments alone employ more than 74,000 bureaucrats and have combined budgets of \$70 billion, 133 times more than the entire Federal Government spent in Theodore Roosevelt's era.

While some programs within these Departments are useful, we do not need huge bureaucracies to oversee them. I believe we should consolidate, privatize and/or devolve them to the States and localities.

In my limited time, I would like to specifically address just one Department, one that was already discussed in the opening statements—Commerce. By examining this Cabinet Department, I think we can see both why downsizing is needed and how we can institute that reform.

The Commerce Department houses the most redundant collection of agencies in Washington. Indeed, according to the GAO, it shares its mission with at least 71 other Federal entities. Ironically, regulating interstate commerce is not part of this mission. That is handled by the Interstate Commerce Commission, itself a target for elimination.

The Commerce Department spends almost 60 percent of its \$3.6 billion budget on the National Oceanic and Atmospheric Administration, NOAA, the Nation's weather and ocean-mapping service. Another \$400 million funds the Economic Development Administration, EDA, a source of often questionable spending on things like docks and sewers, including spending in such distressed areas as Key Biscayne, Florida.

Mr. Chairman, in my opinion, we should reorganize NOAA by selling some of its components and/or transferring them to more appropriate Departments, as was suggested in Senator Glenn's opening comments. I also believe we should eliminate the EDA because it risks too much Government money on projects that are better left to the States and localities. Other Commerce programs, such as those cited earlier, could be transferred or put in an independent statistical agency or independent commission status.

These same approaches—consolidation, privatization, and devolution—will help us eliminate and/or consolidate the programs of the Departments of Energy, Housing and Urban Development, and Education. I believe it can be strongly argued that each of these Departments has failed to have a positive impact. The Energy Department has yet to create a single unit of energy. HUD's tenure has seen increases in homelessness, stagnation in home ownership rates, and a deterioration in our low-income housing stock. The Education Department has failed to improve student performances. SAT scores have declined 78 points since 1963, the year the Federal Government began intruding in education policy. And the Education Department failed to reverse this trend. SAT scores today are essentially the same as those from 1978 when the Department was formed.

Mr. Chairman, each of these Departments contains numerous programs that are no longer needed. Each also contains useful agencies that can be saved through consolidation, privatization and/or devolution.

I have only sketched the beginning of the more extensive downsizing our Federal Government requires. There are hundreds of agencies, commissions, boards, and committees that strain the resources of taxpayers nationwide. The Interstate Commerce Commission spent years attempting to decide whether candy canes should be charged higher rates than other candy because they take up more space. Meanwhile, the Swine Health Advisory Committee is charged with working to regulate the feeding of garbage and uncooked meat to pigs while the Board of Tea Experts meets annually to recommend standards for imported tea.

It is safe to say that the President who stated the "Rough Riders" would not recognize much of the Federal Government we have today. He certainly would not understand why the American taxpayer is being asked to finance tea tastings.

Mr. Chairman, I look forward to working with you and your colleagues on the Committee to remove the tax and debt burden these kinds of entities put on the American public. I look forward to joining you in the important project of restoring fiscal responsibility to our budget and effective control over their lives to our States, localities, and people, and most importantly, trying to ultimately reinvent and redefine Government at the Federal level at such a way that it operates more efficiently and effectively for the American people.

I apologize for my departure at this point. I appreciate the chance to be here and will be glad to answer any written questions that might be submitted. Thank you very much.

Chairman ROTH. Thank you, Senator Abraham.

Senator Faircloth, it is a pleasure to have you here. I think you come with a background as Secretary of Commerce in your home State. Is that correct?

TESTIMONY OF HON. LAUCH FAIRCLOTH,¹ U.S. SENATOR FROM THE STATE OF NORTH CAROLINA

Senator FAIRCLOTH. Thank you, Mr. Chairman. Yes, I was head of the Commerce Department there for almost 7 years, and I also ran the State Department of Transportation. But I think more importantly, I have spent 47 years now in the private sector running businesses and farming and meeting payrolls every Friday.

I would like to thank you for the opportunity to appear before the Committee today to discuss the work of the Senate Task Force on Elimination of Government Agencies. Senator Dole has charged the Task Force with preparing plans for the elimination of the Departments of Commerce, Housing and Urban Development, Energy, and Education. Working in close cooperation with our counterparts in the House, our goal is to introduce identical or very similar bills to eliminate these Departments. The Senate Task Force will also be taking a hard look at the Departments of Labor and Transportation.

My experience with Federal bureaucracies was learned firsthand as a businessman and as a public servant. Before coming to the Senate, I spent 45 years in the private sector learning lessons which I applied during the 6 years as Secretary of the Department

¹The prepared statement of Senator Faircloth appears on page 220.

of Commerce in North Carolina and 4 years as chairman of the North Carolina Department of Transportation. Throughout that experience, I cannot remember a time when there has been a greater interest in and greater need to closely examine whether taxpayers are being well served by our Nation's grand experiment in big Government.

Today, Government spending at all levels accounts for 43 percent of the national income. In November of 1994, the American people sent a clear message to Washington that our experiment in big Government had failed. We in the 104th Congress have a unique opportunity, responsibility, and mandate to break out of the old big Government pattern. We cannot afford to simply tinker with marginal reforms, leaving the vast bulk of the Federal regulatory State in place. We must carefully measure existing agencies against constitutional first principles, and those agencies that fail the test must be eliminated, not reinvented.

I believe that the starting point of any such analysis should be the United States Constitution and the Tenth Amendment in particular. That amendment says—and I will read it in its entirety: "The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people."

Since last November's election, the Tenth Amendment has enjoyed a belated rediscovery. However, for those of us who have worked in the private sector and served in State Government, the value of that amendment was self-evident as we struggled under the ever increasing weight and cost of the overburdening Federal bureaucracy.

Now in the Senate, I have not forgotten the lessons I learned in North Carolina. While analyzing the value and legitimacy of Federal agencies, I consider the following 3 questions:

First, does a Federal agency serve a vital national interest?

Second, could these interests be better served at the State level or by the private sector?

And, third, can we justify the agency in light of the current budget crisis? And it is a crisis that is getting worse daily, by some \$800 million daily.

This was the analysis I applied to the Department of Housing and Urban Development before I introduced Senate bill 435 to abolish the Department. Created in 1965 as a response to the emerging urban crisis, misguided HUD policies have further contributed to the crisis. Shortly after its creation, HUD quickly became an integral part of the Nation's failed welfare system. In the past 30 years, HUD and other Departments have spent more than \$5 trillion—almost exactly our National debt—in means-tested assistance, and yet the urban problems are worse today than they were when we began. This year alone HUD's budget amounts to \$26 billion.

Even more troubling, HUD has over \$200 billion in unexpired budgetary authority. HUD is the only Cabinet Department that has an independent counsel still probing corruption, and the current Secretary will soon have another independent counsel probing the circumstances of his confirmation. HUD's track record is so bad that even President Clinton briefly considered eliminating HUD

after the November elections. He should have considered it longer and eliminated it.

Having opted to reinvent HUD, President Clinton and Secretary Cisneros have failed to realize that the time has passed for marginal reforms. The Senate Task Force is preparing legislation for HUD's elimination and has been working with various offices in both the House and the Senate to assemble the best plan for abolishing HUD. We remain open to ideas and suggestions from others who are committed to the same goal of HUD's elimination.

I will speak briefly about one aspect relating to HUD, and that is the need to reform the Federal Housing Administration. A reformed FHA should enhance home ownership opportunities by targeting FHA's mortgage insurance program to those who face the greatest challenge in buying a house—low-income, first-time home buyers.

A new FHA should leverage private sector capital and expertise so that it can operate in a streamlined manner while taking advantage of private sector innovations.

Let me say a brief word about the Task Force on plans to eliminate the Department of Energy. Very recently, the Department of Energy Secretary made a last stand to save the Department. Her attempts have made it clear that the Clinton administration is incapable of making the necessary choices and taking the necessary actions to reduce the size and scope of the Federal Government.

The announced initiative to change the Department is another case of too little, too late. The cold fact remains that the Department of Energy remains an organization that has too many missions and too many resources chasing too few tasks. The Department of Energy does not need to be downsized, streamlined or aligned. It needs to be closed, eliminated, simply gotten rid of.

I strongly believe the elimination of the Departments of HUD, Commerce, Energy, and Education should be included in the budget resolution on the Senate floor today. Republicans should not shrink from any opportunity to eliminate these Departments. To do so would send a signal exactly opposite of what we told the voters last November that we stand for real change in spending and social policy.

Finally, Mr. Chairman, I would like to commend Senator Dole for his leadership on the Task Force. With his commitment to eliminate Departments targeted by the Task Force, I have more hope than ever that at long last America will begin to get its financial house in order.

Mr. Chairman, I thank you, and any questions you might have, I would be delighted to answer, and also Senator Glenn.

Chairman ROTH. As you undoubtedly recognize, the Commerce Department has been sometimes referred to as the CIA, the Commonwealth of Independent Agencies. It actually houses several functions that are not similar in mission, but they serve American business interests, possibly, such as trade, technical standards and so forth.

From your experience at the State level, is there a need for a Department that serves as an umbrella for the Federal Government's generic relations with the business community?

Senator FAIRCLOTH. I do not think so. I think that what we are talking about is exactly what the Tenth Amendment provides. This should be handled by the States. This is a State responsibility, a State function.

I do not think that we need a National Department of Commerce for the interaction with the business community.

Chairman ROTH. You talked about a number of Departments—Commerce, Energy, HUD. Are there any other agencies or Departments that you would recommend as serious candidates for elimination or consolidation?

Senator FAIRCLOTH. Well, this morning, of course, we are looking at those four. But I think further study should be done on Transportation and Labor, and I think probably we will find adequate reason to see those two eliminated also. But I do not think we should be attempting that in this Congress.

Chairman ROTH. Are there any new agencies that you think ought to be created?

Senator FAIRCLOTH. No. We have too many already.

Chairman ROTH. Senator Glenn.

Senator GLENN. Mr. Chairman, I guess what I am afraid of is we are getting into a feeding frenzy on cutting without really looking at exactly what the situation is and considering it very carefully as we propose to do with a commission that would take a longer and a more studied look at this.

I am sorry Senator Abraham is not still here because he likened our current Government to that of Teddy Roosevelt's day, and yet the population of the U.S. has tripled since then. In 1900, major industrial unions had not yet really organized and got going. There was no substantial export industry. We did not have an economically interdependent world. We had no defense or foreign responsibilities outside of this hemisphere that anybody really cared about at that time. We had fewer than 48 States. There were no real telephone, electrical, or mobile industries. We did not have much of a social safety net.

I guess I would be surprised if our Government had not expanded substantially since 1900; it would be a miracle. Since that time, we have made enormous strides forward in medicine and transportation and specialization, and we now live in an interdependent world. It is no longer a Norman Rockwell world that we live in.

I am all for cutting some of these programs and duplicative functions. I do not want to leave any misconception here. But I think to just say we are going to whack Departments just because Departments have grown since 1900 does not really do the job. I think we need to take a very considered and careful look at these things.

I do not know whether you were prepared to answer some of the questions we had for Senator Abraham or not, but—

Senator FAIRCLOTH. I would be glad to try.

Senator GLENN. All right, good. Where would NOAA go? I know in his statement he said we would break NOAA up or sell it to somebody, and here we just got done a few years ago combining these functions in NOAA. As I understand it, it is working very well. We get better weather forecasting. We get better climate anal-

ysis. NOAA is dealing with worldwide climatological changes and so on, and I think it has done a good job.

Now, it is a big-ticket item. There is no doubt about that. But to propose it just in the interest of somehow cutting something that we are going to take NOAA and just eliminate it or sell it off or break it up to me does not make much sense. We just got the agency operating with new responsibilities, and it is organized and working well, as I understand it.

Where would it go?

Senator FAIRCLOTH. Senator Glenn, I have not given definitive thought as to what agency it would be put in. I do not think it ought to be broken up and done away with. But there are any number of agencies that will be left existing that could well handle it without having it where it is.

Senator GLENN. Well, for instance?

Senator FAIRCLOTH. EPA.

Senator GLENN. All right. That might be a possibility.

Senator FAIRCLOTH. Department of Defense could even handle it, but I would say EPA would be more logical.

Senator GLENN. The Energy Department, I know you are proposing doing away with it. The Energy Department is dealing with all of the nuclear cleanup leftover from the Cold War. Who would do that?

Senator FAIRCLOTH. The Department of Defense.

Senator GLENN. Well, we already have such a problem with military. We have had hearing after hearing after hearing in this Committee, and I had another one the day before yesterday over on the Armed Services Committee, where we have worked for years trying to get the military financial management over there cleaned up. It is an absolute mess. And to add to their problem right now I think would be a drastic error.

In other words, we would probably have to take the same people out of Energy and assign them to the Department of Defense to do the same job being done in Energy right now. How would that improve things?

Senator FAIRCLOTH. No. 1 is that I do not think the Energy Department has done a very good job of cleaning it up, either.

Senator GLENN. That is because we have not given them the money.

Senator FAIRCLOTH. They have not used the money they have had well.

Senator GLENN. I disagree. We could debate that all morning here. I have gone into that issue probably as much as anybody in the Senate and have followed it for the last 20 years. We started the whole cleanup program in 1985 as a result of action by this Committee, and for what we need to do, we must have an average of about \$9 or \$10 billion each year to do an adequate job on cleanup, and we have never been able to get it above \$6.7 billion, the highest it has ever been. And we are cutting funds back now, which is a tragic mistake.

It is mainly a lack of resources that has slowed cleanup efforts. It has not been their lack of leadership or having the people to do it. We have not had the money to do it.

Senator FAIRCLOTH. If I understood you right, you said the accounting in the Department of Defense was bad.

Senator GLENN. Oh, it is terrible, yes.

Senator FAIRCLOTH. All right.

Senator GLENN. And it is being improved. And John Hamre over there is making enormous strides in that, and this Committee has been part of that whole process.

Senator FAIRCLOTH. The thing to do is not to say to the Department of Defense, Your accounting is bad so you cannot do anything else. The thing to say to the Department of Defense is, "Get your accounting in order and here comes this other additional, clean up of nuclear waste sites, because you created them, and put them in the Department of Defense.

Senator GLENN. Well, we would not be able to do that unless we increased DOD's budget to do it.

Senator FAIRCLOTH. I am not altogether sure that that is right, because—

Senator GLENN. I am. I am very sure of it, and I would be glad to debate that one with you here or at some other time. I have been through probably 25 hearings in this Committee and probably 15 or 20 over on Armed Services. I am thoroughly familiar with that, and I think to say that DOD can just take this new responsibility on as part of their regular duties and there would not be any increase in money required, you just do not know what the situation is.

Senator FAIRCLOTH. Senator Glenn, for 40 years, we have decided in this country that whatever the problem was, wherever it came from, the answer to it was to throw more money at it. Now, we have ourselves a \$5 trillion debt. We are going in debt, as you well know better than I, you and Chairman Roth, at something like \$840 million a day. We have seen a precipitous decline of the dollar against the industrialized world's currencies. I do not believe you could name one which the dollar has not had a precipitous drop against. Maybe there is one. The yen, we have gone from 240 to 80. We truly have a financial crisis in this country, and it is not any more a conversation. We either get our house in order, or the world financial community is going to put it in order for us.

What if the percent of the Federal debt that is rolled over and then foreign holders refused to renew our notes or roll over the debt, what would we do? What if the Mideastern countries decided that they wanted to be paid for their oil in yen and Deutschemark?

So I think we have a crisis, and we have got to stop throwing money at programs.

Senator GLENN. Well, of all the problems I know of in Government, the one that has not had money thrown at it is this area of nuclear cleanup. And just so we set the record straight here, you know, the last 3 years have been the first 3 years since Harry Truman that we have had a budget deficit reduction. We were right at a \$300 billion deficit when we passed the President's proposal, the reconciliation bill, in the summer of 1993, and it went down to about \$246 billion last year, down to \$192 billion now.

Now, I fault the President for not putting together a program that would follow on beyond that and not let it just remain at \$200 billion. But let's be fair about this. We have reduced the budget

deficit 3 years in a row for the first time since Harry Truman, so we are headed in the right direction. Now we need to keep it going.

I agree with the gist of your statements on the international monetary scene. I do not quite see what that has to do with nuclear cleanup except because we have not put enough money into nuclear cleanup. We have got lots of other areas where we could make cuts.

I do not know whether you favor elimination of the tobacco subsidy. How about that one?

Senator FAIRCLOTH. Absolutely.

Senator GLENN. You favor doing away with that entirely?

Senator FAIRCLOTH. Yes.

Senator GLENN. OK, good. Fine. I will be glad to vote with you on that when that comes up on the floor.

Senator FAIRCLOTH. May I ask a question? Will you vote to get rid of the corn and wheat subsidies?

Senator GLENN. I think we have to consider that, and I am looking at that with my staff right now, yes. [Laughter.]

Chairman ROTH. I think we are accomplishing more than I thought would this morning. [Laughter.]

Senator GLENN. No, you are not catching the new boy on the block on that one. I have proposed cutting back on those programs for many years. Now, whether we should go all the way in eliminating them or how we phase them out, I think that is something we need to look at very, very carefully.

We could debate all morning on one subject and not have any other witnesses here, but I think that all I am saying is this: I favor the commission approach to reorganizing and consolidating the Federal Government. I know you and your people have worked very, very hard on picking the things that would be eliminated. I am not quite sure how you came up with these four Departments as being the prime candidates, whether there was a need to say we are just going to whack things or whether it was really well thought out as to here are agencies that have a predominant amount of excess in them.

I think we have to have a commission that would determine, for instance, in advance, where NOAA would go. I think NOAA does a good job. Apparently you and your colleagues do not think they do a good job and could be eliminated. Yet I swear the next time a big hurricane comes grinding in on your coast along Cape Hatteras, NOAA is going to be the outfit that is going to be tracking that hurricane and looking at it and making all the estimates and saving thousands of lives from what used to happen years ago before we had such a service.

So all I am saying is I think we have to give this very considered thought, and I very much favor the proposal of a commission that the Chairman and I favor. I hope that is the way we go and that we do not get caught up just tossing things out on the floor, let's do away with Commerce, do away with Energy, do away with all these different Departments until we figure out exactly which functions are good, which functions are bad, and how we retain the good functions and where they go to make sure that we do not wreck more than we cure.

Chairman ROTH. Just one question, Senator Faircloth. If we did do away with the Department of Energy and the cleanup was

taken over by the Department of Defense, undoubtedly additional funds may be necessary. But isn't it also true that by doing away with the Department of Energy we could be doing away with the top management hierarchy, bureaucracy, whatever you want to call it, and make savings that way?

Senator FAIRCLOTH. Well, absolutely. That is what we would eliminate in all these, Mr. Chairman, we would be getting rid of this plethora of stacked bureaucracy that we have put in place over 40 years. That is what we are talking about eliminating.

Now, you can pick certain items and certain divisions of these various agencies that are worth saving, and we can put them somewhere. But we can cut through a matrix of unnecessary bureaucracy and have a more efficient Government and a much cheaper one.

Chairman ROTH. I want to express my appreciation for your being here today. We think your testimony has been most helpful, and we look forward to working with you.

Senator FAIRCLOTH. Thank you, Mr. Chairman. Thank you, Senator Glenn.

Chairman ROTH. We now have our Panel 2, which is made up of a series of Representatives from the U.S. House of Representatives. I understand there may be a vote going on, but I think we have—

Mr. BROWNBACK. It is a journal vote.

Chairman ROTH. Oh, OK.

Mr. BROWNBACK. I have voted over 300 times already.

Chairman ROTH. Good. Well, please come forward, gentlemen. It is a great pleasure to have you, and we look forward to your testimony.

We are pleased to have you here, Congressman Gunderson, who represents the State of Wisconsin. We also have Congressman Brownback, who represents the 2nd District of Kansas.

Gentlemen, it is a real pleasure, as I said, to have you here. We will include your full statements as if read. We would appreciate it if you would keep your comments to 10 minutes.

Mr. Gunderson.

TESTIMONY OF HON. STEVE GUNDERSON,¹ REPRESENTATIVE IN CONGRESS FROM THE STATE OF WISCONSIN

Mr. GUNDERSON. Thank you very much, Mr. Chairman. I was delighted in the previous conversation no one got into the dairy price support program. I was getting worried. [Laughter.]

Actually, we will get into that later. But thank you very much for the opportunity—

Senator GLENN. Believe me, that is on the block, too.

Mr. GUNDERSON. Actually, Senator, I have a proposal, if you can believe it, to eliminate the purchase program. So I would look forward to working with you on that. I think that time has come.

I am here today because I think we have some unique opportunities at the Federal level as we deal with the Federal deficit and we deal with the whole redefinition of what the Federal role in American society is. But I think it is important that in the process we

¹The prepared statement of Mr. Gunderson appears on page 222.

start from the premise of, No. 1, defining what is the Federal role; No. 2, determining the legitimate Federal programs; then, No. 3, designing a delivery system that implements those particular programs.

I come at this a bit different than some of my Republican colleagues. I will be the first to tell you that because, as we prepare this Nation for the 21st century, probably the most important thing we can do is get our fiscal house in order. But quickly behind that is preparing this Nation to be competitively successful in a global, high-tech economy.

Now, what does that mean? First, it means, obviously, that we are going to break down the trade barriers, and GATT and NAFTA have done that. Second, it means that we will prepare American industry and its manufacturing assembly lines for a competitive, modern ability to compete. And I think clearly our tax policies are moving in that direction, and I think before this Congress is done we will follow that.

I think, however, that there can be no debate among those who want a Federal role in education and those who do not want a Federal role or a Department of Education, that there is clearly a legitimate and essential Federal role in preparing a skilled competitive workforce for a high-tech, global economy.

Now, if you agree on those three basic assumptions, then we achieve no savings at all by simply removing the departmental status and keeping an agency and keeping all the programs and keeping a delivery system that I think we all would agree has grown without any kind of a major plan and is top-heavy, frankly, in administration and regional offices. And so the proposal that I bring you is one that I and Congressman Goodling, the Chairman of the Economic and Education Opportunities Committee, and all of our Republican colleagues, or at least the vast majority of them, are working on together which allows us to redefine what are the essential Federal roles in terms of education and training, and then to design a delivery structure that follows along that same course.

What you see here in the second chart, which is mine—the first one is Mr. Brownback's—is creating a new Department of Education and Employment. What it does is it recognizes that there is a major connection between education and employment, that the Federal role is preparing a skilled workforce for a high-tech, global economy and that it is time we design a delivery system that accomplishes that. To have, for example, half of our youth training programs run from the Department of Education and all of the out-of-school programs and the other youth programs run through the Job Training Partnership Act and the Department of Labor makes no sense. To have our adult education programs run by the Department of Education but to have our adult training programs run by the Department of Labor makes no sense.

So what we have tried to do is we have tried to design a delivery system that achieves the programmatic and administrative and structural savings and efficiencies that I think is the goal of every one in this Congress across the political spectrum.

What we do, as you will notice from the chart, is we create three different major functions that we think are essential to employment policy in the 21st century. The first is you have got to have

a workforce preparation program at the Federal level, and this has to be—we can talk about basic education being the role of the States, and I do not think there is any disagreement about that. But I do not think there is anyone who is suggesting we eliminate Chapter 1. I do not think there is anyone who is suggesting that we eliminate guaranteed student loans and student financial aid. And then we can go on with that list.

Now, if you are going to have those programs, let's design a delivery system that makes some sense. And so what we have done is we have created a workforce preparation policy and policy section that deals with seamless lifelong learning. You have your basic education; you have your higher education; and then you have your lifelong training and retraining all within that seamless program.

The second thing that we do that is absolutely essential in terms of employment policy is bring some order, some sense, and some efficiency to the area of civil rights. I will put my commitment to civil rights up against any Member of the Congress. But I will tell you, if you believe justice delayed is justice denied, no one can suggest that the civil rights enforcement mechanisms and the delivery structure in place today, where we have literally over a 100,000-case backlog and that individual who is the victim of discrimination literally has to wait a year before their case is even heard or investigated by the EEOC, we are doing no one justice in that particular program.

And, Senator Glenn, I would invite you to take a very careful look at our proposal because as we design the budgetary savings, we frankly do not save dollar one in the Office of Civil Rights, because I do not think you can save dollar one and say you are serious about a commitment to civil rights when you have a 100,000-case backlog.

So what we are going to do is design efficiencies that will allow us to use existing budget to reaffirm and make sure we implement this Nation's commitment to equal opportunity for everybody in America's workforce and in their workplace.

The third thing that we do under our proposal is recognize that the Federal role in terms of the workplace is as important as the workforce. And we have to redesign America's workplace in order to succeed in that high-tech global economy. And so what we have tried to do is we have tried to create under workplace policy—and this gets much more into the Department of Labor—a consolidation of basic missions under two Assistant Secretaries. One is the area of workplace modernization, reorganization, and safety. Obviously that is dealing with OSHA, dealing with MSHA, dealing with NIOSH. It is redefining what all of those roles are.

Now, we have been working very carefully and very closely with the General Accounting Office. We have asked them in every area that you see here to go through and look not only at programs here at the Federal level, but look at those regional offices, look at those local offices. There are over 1,000 different offices under these agencies across this country that do not even talk to each other. We have to redesign an enforcement mechanism out there and assess where really we do need a local office to guarantee workplace safety and where we do not need one and we can do it more efficiently.

That is being done with GAO right now, and we will have their final analysis some time in June.

The second area is the Assistant Secretary for Employee Benefits. Obviously, as we deal with the issues both of union and non-unionized workforces in America today, as we deal with the issue of portability, as we deal with the problem of pension benefits, as we more and more recognize that minimum wage is only a small part of a comprehensive issue of employee wages and benefits, we think it is essential to consolidate all of those. Either you ought to have all of your benefit programs under one roof and have somebody administratively responsible for them, or you ought not. And so that is exactly the kind of recommendations that we are proposing to you.

We believe, as you saw this week with the House Economic and Education Opportunity Committee, that we can redesign the programmatic functions and role of the Federal Government as we took over 100—I think it is close to 150 of those training programs and consolidated those into four specific block grants on a bipartisan basis and a voice vote out of our particular Subcommittee just yesterday, that you cannot do that by itself without also redesigning the delivery structure. You cannot take training programs from Education and training programs from Labor and say we are going to combine the programs but we are going to have two Departments that administer them.

Now, to some people who want to eliminate the Department of Education, you can look at our proposal and say we have moved education over to the Department of Labor, and you can be satisfied with that result. But those of us who think there is a legitimate Federal role in terms of workforce preparation, in lifelong learning and training and retraining, we think we have met that test as well. So I offer this to you as a constructive, carefully thought out, researched programmatic and structural reorganization of the Federal Government that can save significant money programmatically, it can save significant money administratively, that in the end will save significant money in terms of reducing the Federal payroll, we think in the area of literally over 4,000 employees when we are done with this proposal. I offer it to you in its detail in the testimony we have submitted, and we are happy to work with you, Mr. Chairman, along that line.

Chairman ROTH. Thank you, Mr. Gunderson.

I know there are commitments in the House, and I want to be as helpful to each and every one of you as I can be.

Mr. WALKER. Mr. Chairman, I have already voted. There is a vote on on the journal, and I have already voted. So I can now stay for a little bit of time, if that helps.

Chairman ROTH. All right. Thank you, Congressman Walker.

Mr. Gunderson, let me ask you two or three questions, if I may, about your very innovative proposal. I think it was the Ash Council which proposed that there be a Department of Human Resources, and that, as I understand it, would include much of what you are talking about but goes much further. It would include health services, income maintenance, education manpower, social and rehabilitation services. But what is your thought about consolidating even further than you propose?

Mr. GUNDERSON. Actually, we have taken some of the programs from the Department of Health and Human Services, such as Head Start and some of those, and put them into this lifelong seamless system in our particular proposal. Obviously, in the area of civil rights, when you get into old-age discrimination and some of those that are over in HHS, we have also transferred those into the Civil Rights Office so that we have all of our workforce/workplace civil rights enforcement within one particular mechanism.

I think the real question here, Mr. Chairman, is how big do you want the Department, and if you get a Department that includes all of our health and social services programs, plus all of our education and training programs, plus all of our workplace modernization and safety, if you believe that one person can truly effectively administer all of that efficiently, then I give you the optimist award of the day.

I thought that was just too much, and so I guess I am a step in between the existing structure and consolidating all of those under one roof.

Chairman ROTH. In a sense, you have anticipated my next question. If we were going to invent a Federal executive branch today from scratch, my question was: What would be your basic organizing principles as we create Cabinet Departments? Should they have a broad mission for specific problems and particular constituencies?

Mr. GUNDERSON. I think part of our problem in the past is that we have been prisoners of particular constituencies, and as times change, we are unable to respond to those changes because our constituencies drive the agenda more than the change that is occurring domestically or internationally.

But the second thing, Mr. Chairman, that I think is absolutely essential, let's get out of this mind-set that says first we are going to create Departments and then we are going to decide what they are going to do. Let's do that just the opposite. Let's determine what the legitimate Federal role is in a 21st century and a balanced budget environment. Once we have determined what the Federal role is programmatically, then let's design a delivery structure that efficiently implements that.

My biggest problem with people who want to eliminate to Department of Education is they want to continue many of the education functions. I am not one who believes the Department of Treasury is the wisest place to put student financial aid, because, as you and I know, part of what we want to do is we want to maintain some flexibility in campus-based programs. I do not think there is anybody who is suggesting we eliminate the Pell Grant program. Why would we have the Department of Treasury determine when and how campuses deal with the SEOG and those kinds of programs? When and why would we give the Department of Treasury the ability to make grants to students to attend schools? It does not make any sense.

If you are going to have that and you have decided programmatically that is what you are going to keep, then put that into some kind of a delivery structure that makes some sense.

Chairman ROTH. Well, let me say I agree very strongly that it is important that we determine what the mission of the Federal

Government is and then create the kind of organization that will help implement those missions.

It is also interesting to me, I have had it said that in the case of Germany, they basically have the same organizational structure that was created by Bismarck, and that as new problems arise, they have been able to assign those new responsibilities to pretty much the existing organization. So I think there has to be some flexibility because I think part of the problem today is that every time we have a new problem, we create a new department, a new agency, and it has become extraordinarily cumbersome and bureaucratic.

Let me ask you one more question, and then I will turn to you, Mr. Brownback. I could not agree more that as we reduce the size of Government, at least equally important is the question of providing better services. Like you, I think it is outrageous that you have something like 100,000 cases that remain unheard and so forth.

I am a strong believer that modern technology can do much to expedite better service, but I wonder, how would your organization improve that situation?

Mr. GUNDERSON. Well, there are a couple of different things. First of all, as I indicated earlier, we asked the General Accounting Office to do a programmatic and a structural accounting of all of the operations and assignments of these two Departments and the agency, and they have made some recommendations that have led us to this point in time. They are very carefully at the present time going over the specific functions, staffing, and location of each of these regional and local offices. As I articulated, there are over 1,000 of them out there.

Let's be honest. We are going to get a lot of our savings from that kind of consolidation where it is justified. But, obviously, you do not want to consolidate for the sake of consolidation if it is an enforcement office and you remove workplace and workforce safety in some particular area. That we will have to you by the middle of June because that is when GAO will have that completed for us.

In terms of the civil rights area that you articulated, I think it is essential that we recognize that we have had the Office of Contract Compliance, we have had the Office of Civil Rights within the Department of Labor, really similar missions. There is no sense why those would not be merged. You have the Office of Civil Rights in the Department of Education, and then you have the EEOC. Both of those are trying to deal with the same thing, albeit one in the education system and one in the workplace system.

Now, I believe it is essential that, as you deal with employment policy and you put all of this together, we have got to bring the civil rights element here. Let's be honest. If we do not put it in this Department, we put it in Justice. If you put all of the civil rights investigation and enforcement in Justice, you are not going to have a 100,000-case backlog. You are going to have a 250,000-case backlog because it is all going to be litigation.

Part of what we do as part of this proposal is we take a proposal by Senator Danforth from the last session and I believe it is Senator Kassebaum now who is moving it over here, as I am in the House, the alternative dispute resolution mechanism and other means to resolve these discrimination cases before we get into

court. We cannot preclude court. Nobody would want to do that. But we have got to find a way to solve these cases outside of the court system, and that is why it is so important it be in this Department.

Chairman ROTH. I appreciate your being here today, Mr. Gunder-son.

Mr. GUNDERSON. Thank you.

Chairman ROTH. We look forward to working with you on reorgani- zation in Government in the future.

Mr. GUNDERSON. Thanks.

Chairman ROTH. Mr. Brownback.

TESTIMONY OF HON. SAM BROWNBACK,¹ REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

Mr. BROWNBACK. Thank you very much, Mr. Chairman. I appreciate your taking the time and holding this hearing today. I will have my comments introduced, and I am just going to speak for a few minutes and then respond to your questions.

It was a couple of months ago, 3 months ago, that a group of us on the House side, mostly House Republican freshmen, decided that clearly this last election was a vote for a revolutionary change in the Government: we are seeing people saying this Government is too big, takes too much, is on our back and in our pocket too much, and we wanted less of it.

When President Clinton last fall had suggested that perhaps we had too many Cabinet level agencies, had looked at it, and then decided, well, maybe we do need all the Cabinet level agencies we have, that was when I started thinking about maybe this is a way that we really ought to look at and show the American people our vision of a smaller Government. So when Senator Glenn asked whose idea is all this, we may take as much credit as anybody for having seen what President Clinton first looked at and then fell away from and decided, no, that there is a way that we can do without much of this Government. That is when we targeted the Departments of Commerce, Energy, HUD, and Education, going through an initial review at some length, working with past Secretaries of each of these Departments, past leaders of each of these Departments, doing a lot of work internally, and then coming up with a conclusion, yes, these were candidates for elimination on a set of principles of how you can eliminate it.

We are driven by what the country is asking for and by the Con- stitution. James Madison, one of the chief architects of the Con- stitution, said eloquently words that apply even more today: "The powers delegated by the [proposed] Constitution to the Federal Government are few and defined." And it is our heartfelt belief that in recent years this Federal Government has decided it can be and is all things to all people and, as such, is not doing many of its functions well, and it needs to get back to that core of limited Gov- ernment and do those things well.

A group of us formed a loose association called the "New Federal- ists," focused on this issue of limited Government. Let's get the Government back to core functions. We should get out of a number

¹The prepared statement of Mr. Brownback appears on page 227.

of things that are extraneous to the core mission of what the Federal Government was created to do. And those things that we should do, we should do well. It is a principle based on the Founding Fathers. It is a principle based upon what Peter Drucker, the management consultant, would ask and would cite, saying, What is your mission? What do you do? And do that well and get out of other things.

He asked the basic question: If you were not doing it today, would you start it? And if you would not start it, why are you still in it?

I think those are legitimate questions that we should be asking. Of the four agencies that we are targeting, most are recent creations of the Federal Government. Except for the Department of Commerce, which was created, I believe, in 1903, all of them are from the mid-sixties on forward when the solutions in this country when we had a major problem were let's create a centralized bureaucracy and that is how we are going to answer the problems that we have. And I think we have proven through trillions of dollars of spending, years of experience, thousands and millions of man-hours that centralize command and control bureaucratic answers in a large, diverse Nation like the United States or the former Soviet Union do not work. The beauty and the genius of America is the individual and liberating and freeing that individual.

Our principles are these four that are set in front of you of what we are developing our proposed legislation around, and we will have legislation and our proposals out next week on two of the agencies, on the Department of Commerce and the Department of Education. And we will follow 2 weeks later with the proposals on the Department of Energy and Department of HUD. These will be thick pieces of legislation, CBO-scored, with all of our specifics within it.

They are guided by these four principles that I have in front of you, and just to go briefly down through those, our plan is to, wherever possible, localize the problem that we have centralized. If there are housing issues that we can send back to State and local units of Government, we will seek to do those.

Wherever we can, we will privatize. If the marketplace can more effectively, more efficiently deliver this service, we will seek to engage the marketplace rather than the centralized command and control approach.

Where possible, we will eliminate functions. In cases where there are functions that the Federal Government has accomplished its purposes in this area, we will seek to eliminate them.

In other areas, wherever possible, we will consolidate. If there are duplicative programs within the Federal Government—and I must tell you to date we have found a number of those where there are—they are not a complete, 100-percent overlap, but there is about a 60-percent overlap that, if we can push those in together and consolidate those functions, we will seek to do that. Where two programs grew, we will seek to replace them with one.

That is the thinking process that we are going through on our overall packages that we will put forward in front of you.

We think there is compelling argument and compelling movement in the country today to seek to downsize the Federal Government, its size, its scope, its intrusiveness, and get it focused back on its core mission for which it was originally created. I do not think we are very much different in many respects from a large conglomerate that lost sight of its core mission and function and got into far-flung fields where it was not the global competitor in, and that we have just got to get it back into that core mission and focus.

We have been very encouraged by the American people in this as we have brought the package forward. I was worried that we would get a lot of criticism for, well, you cannot do this, we need this Government, these sorts of solutions. And our biggest criticism to date has been, Why only four?, the people that have called and asked, and this is from doing lots of different contact and communication across the country.

One other thing I would bring to the Chairman's note is the recent Lopez decision which, for the first time in nearly 60 years, the Supreme Court has spoken saying that this is not an unlimited Federal Government of unlimited powers. It is a limited Federal Government with limited powers, and there are limits and constraints on the commerce clause. I think that is another powerful statement and push back towards the very principles on which this Government was founded. It is a limited Government. We do only those things that are not guaranteed to the States and to the individuals.

With that, I would be happy to respond to comments, questions, or thoughts you might have.

Chairman ROTH. Would you have time to let Mr. Walker go ahead?

Mr. BROWNBACK. I always yield to the Chairman of the Science Committee, Mr. Chairman.

Chairman ROTH. Mr. Walker, it is a pleasure to have you here.

TESTIMONY OF HON. ROBERT S. WALKER,¹ REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. WALKER. Thank you, Mr. Chairman. I am delighted to be with you today and delighted to have the opportunity to testify on your topic of restructuring the executive branch and Federal agencies. You have long been one of the preeminent people who have been looking at this whole business of Government organization reform, and it is a real privilege to be here before you today.

As Chairman of the Committee on Science, I have had the privilege of being able to glimpse into the future. In fact, the first hearing I held under my chairmanship was entitled "Is Today's Science Policy Preparing Us for the Future?"

In that hearing, the Committee saw the many changes that will take place in our country and the Government which serves America in the years ahead. It has been my hope ever since I arrived in this body that Congress and the executive branch would be more forward looking institutions. It seems to me that we are always trying to solve yesterday's problems. Instead, as a Government, we

¹ The prepared statement of Mr. Walker appears on page 230.

ought to be looking at ways to anticipate what lies ahead and enact policies that are future-oriented.

Naturally, it follows that the organizations which formulate and administer these policies should be rationalized to reflect the rapidly changing nature of our society.

For example, one of the restructuring options which should be considered is the one that Mr. Gunderson talked about a few minutes ago, and that is the combination of the Departments of Labor and Education. Because of rapidly changing technology, we will need to create a system of effective lifetime learning.

No longer can one expect that the education one receives in one's youth will be sufficient to enable one to maintain the skill levels necessary to perform optimally in the workplace.

That is why a Department of Education and Labor, or Education and Employment, as Mr. Gunderson described it, which emphasizes the need for lifetime learning skills will be a necessity for America's competitiveness in a rapidly changing world economy. On the fiscal side, such a combination would also save several billion dollars a year.

Another executive branch reform that I have long advocated is the creation of a Department of Science. To me, this would be the focal point for future-oriented programs within the Federal Government.

As we enter the 21st century, science will play an increasingly important role as a driver of economic growth. As we have seen in the recent past, inventiveness is the key to job creation.

A Secretary of Science would be a member of the President's Cabinet who would work with other Cabinet secretaries to assure that new ideas are brought to bear on the policy deliberations of the executive branch's most important policymaking council.

The department I am proposing would be one which would combine the science elements of the existing Departments of Commerce and Energy as those two agencies are terminated. It would also incorporate into the new department the National Aeronautics and Space Administration, the National Science Foundation, the Environmental Protection Agency, as well as the United States Geological Survey, and some other more minor agencies of the Government. These organizations would no longer be separate, independent agencies.

There are several reasons for bringing these entities together in a new enterprise.

First, a Cabinet department would be able to highlight the role of science in making Government decisions. In the House, we have just completed a long debate concerning the role of science in the regulatory process. During our deliberations on risk assessment, we voted overwhelmingly to base regulations on health, safety, and environment on sound science. A Department of Science would be an agency that would help formulate and refine policies which would allow Government to place its regulatory decisions in an objective framework.

In addition to being a focal point for much of our scientific endeavor within the Government, the proposed Department of Science would achieve significant cost savings by bringing together various elements of our science enterprise. By so doing, we would

be able to reduce administrative overhead by eliminating separate legal, personnel, budget, and administrative functions. Under my proposal, the Secretary of Science would be able to examine areas of program duplication and eliminate those programs that replicate each other.

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

To put this figure into perspective, a reduction of 5,000 employees would account for just a little more than 5 percent of the workforce of the new department if one were to transfer all the employees of the existing entities into a science agency. If one were to double that figure to 10,000, which I think is absolutely possible given the nature of downsizing in business where they have gone to 25-percent reductions when they have done the same thing, the savings that would be generated would be over \$4 billion through this kind of transformation.

Other savings will be realized through the elimination of other portions of the current Commerce and Energy Departments. For example, I would propose the sale of the Power Marketing Administrations within the Energy Department. Such a sale would not only create revenues for the Federal Government from the sale itself but would save an additional \$350 million a year through termination of the Federal subsidy for these organizations.

Mr. Chairman, for the first time in many years, we are looking at a major restructuring of the executive branch of Government. We should also take this opportunity not only to downsize what everybody acknowledges is overly large and also outdated. Many of the charters for the Cabinet agencies were formulated during the 19th century. When the Department of Agriculture was created in 1862, over half the population lived and worked on the family farm. Today's economy is not only based on our agrarian heritage but is also to an increasing extent anchored in science, trade, telecommunications, and information. As we reduce the size and scope of Government, we should rationalize what remains into cohesive structures which address problems as they exist today. At least a part of our focus as we reorganize should be on the future.

Thank you, Mr. Chairman.

Chairman ROTH. Thank you, Chairman Walker.

I would like to ask a couple or three general questions of both of you. A number of us, a bipartisan effort, as a matter of fact, have long advocated the creation of a commission to develop a comprehensive framework for the executive branch of Government. We think there is a short-term problem. Certainly we are currently trying to reduce the cost of Government, and that is pretty much budget-driven. The other side of the coin is that the public is very dissatisfied with public service. As you said, we must decide what the core missions are. How do we do a better job of providing those services?

So we have done a lot of talking about developing for the long term a commission that would come up with recommendations as to how to structure Government, and because it has been our con-

cern that commissions too often end up with a study and nothing more, there has to be some kind of way of forcing action on the part of the executive branch of Government. So the commission would make recommendations to the President, who in turn would be required to forward those recommendations which he agrees with to the Congress and the Congress in turn would have to act within certain time limits, much like the base-closing proposal.

I wonder what your thoughts are about that kind of approach as a means of developing a comprehensive framework for Government for the 21st century.

Mr. Brownback.

Mr. BROWNBACK. Mr. Chairman, I appreciate the idea, and it has some clear thoughtfulness to it. But I have to tell you I just do not think the public is going to be real patient with a process that would unfold over a period of 5 years, say, like a base-closing commission where it continues to go for a period of time. They have spoken in two consecutive elections for dramatic reform, and they want to see it.

I just came through this last election, the first time I have ever run for office and was elected, and they are very, very impatient. They want to see the changes happen, darn it. They think they have been lied to and misled for years, and they want to see something different happen.

That is why I do not know if, you know—

Chairman ROTH. Let me make this comment. By talking short term, I do not think there is any question but that there is going to be considerable downsizing and elimination of Departments now. But in eliminating, somewhere along the line the pieces are going to have to be picked up to make sure that they work in a more constructive way.

The experience in the private sector has been that if you do not come up with a feasible plan, you end up in the long term spending more than you save. So I have no argument. I agree with you. The public wants change now, and I think this Congress will bring about change of the type you are talking about.

But at the same time, I think we have to have somewhere a comprehensive framework as to how Government is going to better provide those services that we decide are essential.

Mr. BROWNBACK. You have a very good point. The other thing I would point to, though, would be the example in the private sector, the large corporations. When they went through this process—and many went through it, and it is a very difficult, tough process. We have had hearings and have talked to them, and they have always said you have got to go deep and fast and hard, because you get certain windows of opportunities to be able to make the dramatic changes that you have to make. And I think the country has spoken, and we all know these are things that have to happen.

If it is something that gets caught up in—the standard mode, I just do not know that we can make the major changes that we need to happen or if the window shuts before it occurs. We need the overview plan. But I think we have got legitimate thoughts here that have been stewing for some period of time on what you can do and make a number of these major changes, and maybe what you do now is you make a number of those now and then you put

forward a commission that comes out for later when we look at over-arching—

Chairman ROTH. Again, I do not think you can delay the second step too long, either. I agree with you. I think that if you create a commission to develop a comprehensive framework, it should be expected to act relatively quickly, because a lot of work has already been done in these areas. But no one has yet put together a comprehensive package. But I agree with you as to the urgency of doing something now.

Chairman Walker.

Mr. WALKER. Mr. Chairman, I share some of the concerns of my colleague from the House and some that you have expressed. Sometimes when some of these issues hit critical mass in Washington, the tendency is to form a commission in hopes that the commission may cool it down long enough that the status quo can survive. That is a concern of mine.

But I think you expressed a legitimate concern, too, and it is one that I think we are beginning to run into in the House as we look at some of these reforms; that is, when we cannot find places for things, we go out and we form independent agencies. Well, the long-term expense of that could be vastly more than some of the Departments, because those independent agencies happen to have the same structures in them that the Departments now have. And so there is no guarantee that simply because we are eliminating Departments and forming new entities on those things that we want to keep that we end up saving a lot of money. So a rational consolidation makes sense, and a commission might have some advantage in doing that.

The only thing I would suggest is that if you are going to go that route, then the commission has to have a very, very short life. There has to be a very firm commitment that the President sends recommendations based upon that commission report to the Hill promptly, and there has to be an expedited legislative procedure. In other words, all of this should be able to be done, I would think, in a time frame of not more than 3 months, because what you have got to have is the sense of urgency about what you are doing that reflects, I think, what Mr. Brownback talks about where we have now reached critical mass in the country where they are demanding that it be done. I think that bringing the focus of a broader base than simply congressional committee hearings into play would be useful, but I do not think it is one of those things where we can allow the commission to study it for a year and then have a process that allows the administration to take another several months to look at the report and then at some point brings it to Capitol Hill where the expedited procedure becomes the captive of all the other things that we are trying to get done.

I think you really have to have something that assures that this is done and done promptly.

Chairman ROTH. There is no question but that there will be fast action. I think we are all in agreement on that. Whether we can do all of it this year is a good question. Let's assume that the four Departments are done away with. The question is: How will Government function after we terminate? Because as I see it, there are two messages from the public. One is they want less Government,

less intrusiveness in Government. At the same time, I think there is great dissatisfaction with services. They neither see Government solving problems; nor do they see it giving fast action. And one of the problems we have is that in the private sector a decision can be reached if you want a mortgage—I have used this illustration many times—for the average person in a matter of days. But if you apply for a disability pension, it takes something like 6 months in the Government.

I think right now the second problem of better service is taking a back seat, but I personally think that is going to become increasingly important as we move ahead. People will be unhappy if they see us eliminating but not providing service.

Mr. WALKER. The fact is, though, it seems to me that a lot of the ability of the private sector to deliver that level of service is because they have been able to adapt the new technologies as they have come into play into the service area.

Chairman ROTH. Absolutely.

Mr. WALKER. The problem with the structure of Government is that we have been manpower-oriented and it is almost impossible to get rid of some of the overhead that we have built into Government unless you totally restructure the Government. And the only way that we are going to get to the advantages of technology to deliver services is to have a dramatic restructuring and downsizing of Government. I think the downsizing and the better service actually go together. That sounds almost counterintuitive, but it is the fact of life that we have learned from every other experience outside of Federal Government activity.

Mr. BROWNBACK. That happened that way when we privatized some services at the State level in a State agency I ran. It actually was less cost to the Government, quicker, better service. It did shift costs to the private sector when we did that.

Thank you, Mr. Chairman.

Chairman ROTH. Congressman Klug, it is a pleasure to have you here.

Well, the time is moving on. We will look forward to working with both you gentlemen. We appreciate your taking the time to be here with us. I find your testimony most instructive and helpful. Thank you for coming.

Mr. WALKER. Delighted to be with you.

Mr. BROWNBACK. Thank you, Mr. Chairman.

Chairman ROTH. Mr. Klug, would you please proceed?

TESTIMONY OF HON. SCOTT L. KLUG,¹ REPRESENTATIVE IN CONGRESS FROM THE STATE OF WISCONSIN

Mr. KLUG. I will keep your time constraints in mind and do this briefly. I will submit a longer statement for the record, but actually before that chart gets pulled away, I am actually here as an advocate for line 2, which says "privatize."

I think it addresses part of what you just asked, the second part of your question about people feeling as if they are not getting the services they are requesting from the Federal Government. If you look all the way back to the early days of the Eisenhower adminis-

¹ The prepared statement of Mr. Klug appears on page 231.

tration, President Eisenhower said the Federal Government should not be in the business of competing with people in the private sector already providing services. That was a great line in a speech, but 40 years later we still find ourselves kind of in that same box.

Let me, if I can, just very briefly indicate three areas where I think this is of particular interest and part of what has to do with the restructuring you are talking about today.

For example, in my colleague from Kansas' recommendations, there is a suggestion that we eliminate the Department of Energy. Nearly a third of the Department of Energy staff works on the Federal Power Marketing Administrations which produce and sell electricity across the country. I think we have to ask ourselves why, in 1995, are we in the electric generating business and the electric transmission business. I am delighted to see both the House budget and the Senate budget recommend phasing out and selling off the Power Marketing Administrations.

Unless you do that, you cannot eliminate that third of the Department of Energy's employees who work on Power Marketing Administrations. Otherwise we are just moving names around on stationery and we have not accomplished anything or saved any money.

So, like you, I would be awfully cautious about these discussions about how you eliminate Departments, unless you figure out what you do with the functions within those Departments. And it is clear, I think, in one area on asset sales that both the Senate and the House and, for the first time in history, the White House are on the same page in terms of the Power Marketing Administrations, the National Helium Reserve, the Naval Petroleum Reserve, and a half a dozen other projects.

The second place in terms of delivery of services is the lesson to be learned in general attitude in Government. If you read any of Tom Peters' works on the search for excellence and you compare your treatment at Disneyland or Disney World with the kind of service you usually get when you go to get your driver's license renewed, it tells you a lot, I think, on a kind of micro level what it is like to go see the Government.

Clearly, there are substantial savings to be had and I think terrific efficiencies to be had, if we begin to contract out Government services, and even for us in-house. Just a couple of blocks away from here, as you know, is the Government Printing Office. We have 4,000 employees. As fast as we invest in technology in the printing process, it is out of date. In fact, ask anybody who is in the private printing business back in your home State. There are 110,000 private printers in the United States, and there is no reason in the world we should be investing in printing technology. The GPO should become a procurement agency.

In the same way, there is no reason for the National Weather Service to continue to provide specialty crop forecasting. Only 8 percent of the maps used by the Federal Government are bought from outside of the Federal Government. We have a whole fleet of cartographers.

There are 9,000 employees in the General Services Administration who do nothing except administer commercial real estate contracts. If you talk to IBM or anybody involved in the private sector,

they use private commercial consulting firms to negotiate contracts for them. Why do we continue to keep those kinds of Federal employees on the books?

The third area that, again, is in both the Senate and the House budget—and the Senate, frankly, is ahead of the curve—is the idea of corporatization, to take Government functions and spin them off.

To this point, it seems to me much of the debate in Washington has primarily been focused on what level of Government provides the service best, and that has been the framing question on the welfare reform debate. Should we give it to Tommy Thompson and my home State legislature in Wisconsin? Or should we continue to drive the ship here in Washington?

What, seems to me, has been sorely lacking in the discussion at this point—and I think your work in this Committee is beginning to lead that discussion—is what services should the Federal Government no longer be in today and how do we get out of it. Again, I have been impressed that you all are willing to tackle the suggestion of privatizing and corporatizing the air traffic control system in the United States. I do not need to belabor the point. You have all heard this. The United States air traffic control system is the single largest purchaser of vacuum tubes in the world. We have to buy them from Poland because you cannot find them anyplace else.

Now, if there is an area of the world I think we should look at, look at New Zealand. Faced with this same choice some years ago, New Zealand privatized and corporatized its air traffic control system. They were able to make intelligent investment decisions. They could make decisions about what air traffic control towers they could close down or privatize completely. And today, imagine of all things, they actually turn a profit. Not only do they turn a profit in that sector, if you look at New Zealand, it is the only country in the world today of the major industrialized Western countries that actually has a budget surplus and is paying down its debt.

So I wanted to come by specifically just to put a plug in that whatever this Committee decides to do, any way, any place, any form you want to privatize, I and my colleagues on the House Privatization Task Force would be delighted to work with you.

Chairman ROTH. I appreciate your comments.

Let me ask you, in your view, what lessons have we learned from the Federal Government's past experience in privatizing activities such as ConRail? Are there any guiding principles about when it might be suitable and when not? Or how to do it and how not to do it?

Mr. KLUG. Well, if we have erred to this point, it seems to me we have erred on the side of caution, and both the examples you pointed out, I think, suggest that.

The argument with ConRail years ago was that it could never stand on its own. Clearly, not only has it stood on its own, it has been a tremendous financial success. And it seems to me ConRail is the perfect model for the discussions that should seriously be pursued with Amtrak. It seems with Amtrak more than anything else, we, those of us in the House and the Senate, should get out of the way and let Amtrak make the decisions it can about how you structure and organize the national rail system. And where it can-

not, then we should get out of the way and allow the private sector to step into the gap.

Case in point in my home State of Wisconsin: Amtrak had the rail service between Milwaukee and Chicago suggested for elimination. We had six private firms come to the State of Wisconsin and say we are ready to do it tomorrow—only to discover that under current Federal law none of them had the opportunity to get access to the tracks.

So I think people are willing to step into that gap if we will get out and allow the private sector to provide those services.

Back to my New Zealand case, New Zealand for years had a federally run, nationalized railroad and ferry system. They sold it, and actually they sold it to a railroad called Central Wisconsin, which, despite its name, is tragically headquartered just outside of Chicago, but we are working on that.

They had 23,000 employees in the rail system. It is now down to 7,000. Trains run on time. The ferries have been updated. In fact, it has been so successful they are going to take it public in the near future in New Zealand. And that is a success story that I think ConRail hints at we could do with Amtrak if we just have the courage to allow Amtrak to make decisions and then to change the laws to allow people to step in where commercial rail service is viable.

COMSAT is the second interesting example because I think it illustrates in some ways the tension we face in these decisions. If you are going to sell the Power Marketing Administration, both the administration's plan and the House budget plan assume what you want to do is structure the deal in such a way that you give preferential treatment to the rural electric cooperatives and their customers. That will get you about \$3 billion. If you sell it completely on the commercial market, kind of tentative estimates are probably close to \$7 billion. There have been discussions that it could be as high as \$9 billion.

But we face this tension that you do not want to cause great price increases in some corners of the country. It does not, frankly, make any sense in 1995 to have your constituents in Delaware or mine in Wisconsin pay taxes so the Pacific Northwest can get cheap power in an era we are about to enter, retail wheeling. But we have to realize the tension, and when we decided to sell COMSAT, for example, we could have gotten more money had we more tightly restricted the information on the satellites that COMSAT had, but we made a decision that said, you know, we could probably get a higher price, but we also want to allow the maximum number of people to get access for the data. So we made that judgment. And I think as we look at COMSAT, that is the same kind of judgment we may have to use in other Government asset sales or corporatization, including the Power Marketing Administrations, because we do have mixed motives and we have to be aware there will be very different consequences depending upon how we structure the sales.

Chairman ROTH. Let me turn for a moment to Government corporations. Should we be making greater use or less use of Government corporations and Government-sponsored enterprises? Some people argue that when we have Government-sponsored enterprises

we are privatizing the profits and socializing the risk. I wonder what your thinking is on that.

Mr. KLUG. Well, it seems to me if there is an illustration of that tug of war going on, it is Sallie Mae, which, as you know, was established some years ago to provide a secondary market for college loans.

Sallie Mae, much to their credit now, I think, has come forward and said cut the string, we do not want to have anything to do with the Federal Government any longer whatsoever.

Now, unfortunately, as Senator Gorton's privatization folks have looked at the deal, it is a money loser today for the Federal Government if you allow Sallie Mae to privatize the way Sallie Mae wants to. That does not mean we cannot change the terms of the deal, however, and make some money on it, which I think, obviously, we should.

But at the same time, I think we have to re-examine all of those GSEs to see whether today it really makes any sense for the Federal Government still to be involved in a lot of those secondary mortgage businesses. And I think it is absolutely appropriate to do it. As you know, beginning with the Reagan administration, there has been a longstanding concern and a legitimate worry about the potential exposure to taxpayers if any of those GSEs goes down the tubes. I think the sooner we re-examine those and kind of work our way up the food chain, starting with Sallie Mae, I think it is in the long-run interest of the United States that, whenever we can sever those bonds, we should sever them as quickly as possible.

Chairman ROTH. I appreciate your coming over to testify this morning very much, Congressman Klug, and we look forward to continuing this dialogue and working with you.

Mr. KLUG. Thank you for the opportunity to be with you today. And there is a word I keep trying to sell my colleagues in the House on, and I would like to see the same in the Senate, it is "a sense of boldness," that we have the first real opportunity to privatize a number of functions in the Federal Government since the early 1980s, and my hope is that by the end of the year we will be able to share a pizza to celebrate.

Chairman ROTH. Thank you. Nice to have you here.

Our final panel this morning includes Donald F. Kettl of Brookings, University of Wisconsin; Murray Comarow, who is former Executive Director of the Ash Council; Jeffrey Eisenach, who is President of the Progress and Freedom Foundation; and finally, Scott Hodge of the Heritage Foundation.

Gentlemen, it is a pleasure to have you here this morning and we are looking forward very much to your testimony. Your full statements, as I said earlier, will be included as if read. We would ask that you keep your opening statements as brief as possible.

Donald Kettl, we will start with you, if we may.

**TESTIMONY OF DONALD F. KETTL,¹ ROBERT M. LA FOLLETTE
INSTITUTE OF PUBLIC AFFAIRS, UNIVERSITY OF WISCONSIN-MADISON,
AND CENTER FOR PUBLIC MANAGEMENT,
THE BROOKINGS INSTITUTION**

Mr. KETTL. Thank you very much, Mr. Chairman. I am a professor of public affairs and political science at the University of Wisconsin-Madison, and a non-resident senior fellow at the Center for Public Management at the Brookings Institution.

At the Center at Brookings, we have been conducting a long-term review of the management of the Federal Government that bears directly on these critical questions that the Committee is examining this morning.

It is clear that not in a generation has the question of how to restructure the Federal Government been so prominent, nor has the answer been so important. This Committee's review this morning is an important review in trying to frame how we look at these questions and, in particular, how we insure that in answer to those questions we get smart answers.

There is absolutely no greater waste of taxpayers' dollars than for the Federal Government to undertake a job and to do it poorly. The dilemma that we have to face here this morning is to figure out not only how to down-size the Federal Government, but how to smart-size it, to try to reconfigure the Federal Government so that it does its job better and cheaper at lower cost, but also at higher performance.

Let me try to explore three different questions to sort through how to go about doing this, how to smart-size the Federal Government.

First, how should we think about the way we structure the Federal Government? We now have unquestionably an extremely confusing organizational structure. We have departments, independent agencies, government corporations, vast redundancies. As we try to reorganize and restructure, let me suggest some principles that we can use to try to sort through these questions.

Second, when should a Cabinet Department be a Cabinet Department? This is fundamentally a political and not an administrative question. An activity should be in a Cabinet Department when we deem the mission to be of real national importance. Ultimately, the question of whether or not we ought to have 14 departments or 24 departments or 5 departments is a question that really has to do with which activities we deem to be of such fundamental and national importance that we want to grace them with a seat at the Cabinet table.

The third question, when should we use government corporations?

Chairman ROTH. Let me ask you a question there, if I may.

Mr. KETTL. Surely.

Chairman ROTH. Part of the problem, if I look back, is that the Nation faces a new problem and so Congress develops a new program and then the tendency is to create a new department or agency to house it in, and, as a result, we see this great growth in Gov-

¹ The prepared statement of Mr. Kettl appears on page 238.

ernment. We never go back. We rarely go back and eliminate anything.

I agree in part with what you are saying, but it bothers me because it seems to me that is what has created this Rube Goldberg contraption that we are faced with.

Mr. KETTL. In response, Mr. Chairman, I think that we are both saying the same thing. What we are talking about is what kind of issues today, not 20 years ago, 100 years ago or 200 years ago, are of sufficient national importance to warrant the creation of Cabinet Departments to support the Government's functions.

Several years ago, for example, we raised the issue of what should we do about veterans. We took what was a Bureau of Veterans Affairs and made it a Cabinet Department. By doing not much more than changing the sign on the front of the building, we said this is something that we think is of national importance.

Do we still think that education, labor and energy are things that, in and of themselves, deserve to have that same sense of importance? There are several different issues here. First, what function should the Federal Government perform? Second, how can we best perform them? And, third, as we perform them, how are we going to organize the world to try to accomplish them as effectively as possible?

These questions are most fundamentally political: that is, what values do we put behind them? What do we want government to do? The question of how to go about doing it is something that we have to answer as a consequence. But too often what we have been doing is trying to look at the questions of shuffling the boxes first, as if that were an end in itself. And if we seek to change the symbols, we often only get symbolic results. That is my concern.

On government corporations, which we have been discussing this morning, there are many more proposals out there to try to transform government. They make the most sense for those activities where there is real market competition. There is not, I believe, in the case of air traffic control. I am extremely leery and worried about the proposition of trying to transform these into government corporations.

For example, I am nervous about the comparison with New Zealand. New Zealand is a country roughly the size of Mississippi, not the United States. It has 700 air traffic controllers, not 30,000, and it operates a far different kind of air traffic control system compared, for example, just with the job of managing air traffic control around New York City, which is the busiest environment in the world. It is hard to imagine what kind of private sector forces we would put into place that would simultaneously insure safety and efficiency in a system of that sort.

In short, I think when we seek to privatize, which I think we need to do more, we need to think very carefully about how to make sure that it is truly market forces and market competition that is driving that.

How should we restructure the Federal Government? My concern here is that most of our efforts have been top-down. We are shuffling boxes back and forth. But, as you pointed out earlier, Mr. Chairman, our real concern is the performance deficit, as much as the budget deficit. Government in the minds of many citizens sim-

ply is not working well, and if we are going to restructure government, we need to do it not from the top down, but from the bottom up, to try to reorganize it in a way to insure that service is the goal and that effective service provision is the outcome. If we do not do that, we will not succeed in smart-sizing the Federal Government and may dumb-size it, and make the quality of service even worse.

A second set of questions: When should we privatize? The discussion on this has been in some ways very confusing, because the term has been used very loosely. Virtually every Federal program is potentially a candidate for privatization under some way in which the term has been used.

Let me start out by trying to at least describe the way in which I find it most useful. It is a kind of grab-bag of different tools that enlist the private and nonprofit sectors to achieve public goals, or that completely transfer public programs over to private markets. So in a sense it is a broad array of different kinds of strategies. How should we use them, and when should we use them?

First, because there are so many different privatization strategies out there, we need to insure that we match the right privatization answer to any given policy problem. Saying that we need to privatize only begins the discussion. It does not end it. And we have so many different strategies and tactics out there, we need to insure that we produce a good match.

Second, we need to be careful not to privatize the wrong things, things that represent, for example, the exercise of sovereign power like fundamental police functions of government, or decisionmaking, like preparing agency policy or testimony before committees like this one, or activities that should not be privatized because they represent the fundamental making of governmental policy.

A third point: we should privatize only functions where competitive markets either exist or can be created. Because, as was suggested earlier, if you want to use private forces, we have to insure that they exist, because otherwise government regulation may very well turn out to be the only alternative and may create a bigger mess in the long run.

Finally, where we do privatize, we must insure that government maintains the capacity to be a smart buyer. We have to learn the lessons of the private sector here. No company would ever be successful if it did not retain the ability to assess what it wants to do, how best to do it or what others are doing on its behalf. That is the lesson of every private sector company that has gone more towards out-sourcing, and we need to make sure that the Federal Government learns that lesson, too.

Let me turn now to a third general set of questions: How can we make sure that we really do smart-size, and not dumb-size the Federal Government? The experiences of foreign Nations and the demands of the voters all point in the same direction: what citizens want are better results. We need to move from running government based on inputs, including the structure of the Federal Government which ought not to be the first, but the last we ask. We need to focus instead on outcomes, what are we producing and how can we best produce them.

The Government Performance and Results Act, which was spearheaded by this committee, represents an important opportunity to

promote this change and represents the keystone, in my mind, of the way in which we ought to be thinking about how to do the government's business. We are to think first about how to insure that we get high-quality results and organize the government accordingly. Real reform means focusing all of the government's energy on performance. The Government Performance Results Act is the keystone and it needs to be the engine that drives government restructuring, in my mind.

In conclusion, let me say that I am not here at all to defend the status quo or government bureaucracy or government bureaucrats. We need fundamental change, but to insure success, we need to insure that we make the right decisions and draw the right lessons from the right places and focus our action carefully.

The private sector's decade-long struggle with restructuring teaches an important point: Fewer than half of all companies that tried to improve their productivity and profits were successful. Half were not. Companies that tried to take short cuts were the ones that failed. Those who succeeded used restructuring as a tool of broader strategic process, of rethinking what business they were in and how to do the business better. It was not an end in itself.

If we are to be smart about how the Federal Government ought to do this job, we need to think about how to smart-size and not dumb-size. We need to learn the real lessons of private sector reform. This is an effort that is so important now, that we simply cannot allow it to fail.

In conclusion, I think that the Committee's concern about the possibility of a commission is an excellent way of trying to make sure that we think carefully about how to do this job well.

Chairman ROTH. Thank you, Mr. Kettl.

Mr. Hodge.

TESTIMONY OF SCOTT A. HODGE,¹ THE HERITAGE FOUNDATION

Mr. HODGE. Thank you, Mr. Chairman. I am very excited about today's hearing exploring the ways of restructuring the Federal Government. It is really long overdue and I think we can all appreciate how last year's election results has driven this process.

I think we have heard many times this morning that, by any reasonable measure, the Federal Government is broke and it simply must be treated in a way that we would treat any corporation that is facing Chapter 11 bankruptcy.

If we are serious about restructuring government, I think that we must challenge the substance of every government program from top to bottom. We have to ask can this be done better by the State and local governments, can this be done better by the private sector, or should this be done at all.

Tinkering with the process of government is not reinventing government. Making obsolete programs just simply waste our money more efficiently is not really restructuring government, and I think this was largely the mistake of the Vice President's reinventing government effort. It was simply the "recycling paperclip" approach to reinventing government.

¹ The prepared statement of Mr. Hodge appears on page 246.

Two weeks ago, the Heritage Foundation released a comprehensive budget plan which we have made available to all Members of the Committee called "Rolling Back Government: A Budget Plan to Rebuild America."¹ We see this book as a detailed line-by-line analysis of the Federal budget and really a how-to book to radically overhauling the Federal Government; done in a way, however, that protects Social Security and national defense, yet produces the kinds of savings that are necessary in order to balance the budget and pay for the tax cuts that are contained in the Contract With America.

As much as I respect the work that was just completed by the House and Senate Budget Committees, I think what our plan does is what no one else in Washington is doing today, and that is really answering the question of what should the government look like as we move into the next century.

Our vision I think is quite bolder than what many people in Washington are currently talking about. Under our plan, the number of Cabinet agencies would be reduced from 14 to just 5. That means we eliminate or down-size 9 Cabinet agencies. Under our plan, the Departments of Commerce, Education, Energy, HUD, Transportation and Labor would be largely eliminated outright. Of course, some critical functions would be moved into independent agencies or moved into the remaining departments.

We would reduce from Cabinet level the Departments of Agriculture into a Bureau of Agriculture, the Department of the Interior into a Bureau of Natural Resources, and the Veterans Administration would be moved under the jurisdiction of the Department of Defense. Military people would be running veterans programs, rather than civilians.

What remains, as our chart shows here to the right, are the Departments of State, Defense, Justice, Treasury and Health and Human Services, what we see as the core functions of government.

I think the Founding Fathers would recognize most of this chart, although I think they would be somewhat perplexed the Health and Human Services.

This is not simply an exercise in moving around the boxes on the flowchart. Our plan saves taxpayers nearly \$800 billion over 5 years, which is more than sufficient to not only balance the budget by the year 2000, a full 2 years ahead of what the Republican Budget Committees have done, but we also have enough savings to pay for the tax cuts in the Contract With America.

Let me very briefly skim over some of the major themes. We have over 150 specific proposals in here. It is quite detailed and it would take all morning to discuss. But we went along various themes such as federalism, and we have a very ambitious and aggressive strategy for moving functions from the government back to the States.

Welfare is a key element of our federalism project. There are more than 75 means-tested major entitlement programs run from the Federal level. These programs cost all levels of government \$325 billion last year. That is \$3,400 per taxpaying household in America. We would collapse these 75 programs into a single wel-

¹ The document referred to is retained in the files of the Committee.

fare block grant back to the States, with minimal restrictions from the current hundreds of thousands of pages of regulations that we currently have, allowing the governors to manage these programs in the most effective way they see fit. This is very similar to Senator Faircloth's welfare reform plan.

Our first theme is the Department of the Interior and Federal lands. We would take sort of a welfare approach to Federal lands. The Federal Government owns one-third of the Nation's lands. We would collapse the major land management agencies into a single Bureau of Natural Resources, then begin a process of transferring those lands back to the States. The Federal Government would hold onto the "crown jewels," if you will, the Yellowstone and Yosemite and Grand Canyons.

Our second theme is corporate welfare. We have dozens of proposals in here for eliminating corporate welfare. In the first place, I would begin with the Department of Agriculture and we would eliminate agriculture subsidies and research. We would also eliminate the Department of Commerce, the Department of Energy, the Small Business Administration, and so forth.

Privatization is another theme. As we heard very eloquently from Congressman Klug this morning, in our plan—and we have been working very closely with him—we detail dozens of ways of moving government functions over to the private sector. And the government owns a lot of stuff that can be moved over to the private sector—oil wells, helium stockpiles, electric utilities, banks, insurance companies, export companies, investment companies—all things that could be done by the private sector and should be, and we outline ways of doing that.

I would encourage the Committee to look at moving the air traffic control system over to the private sector, and we can talk about that later.

One of the more ambitious proposals in our plan is to sell off the government's loan portfolio. The government currently holds over \$155 billion in direct loans in its portfolio and it is not managing them very well. We would sell off those loans to the private secondary loan market. We feel that we could raise at least \$100 billion in cash by doing so and save at least \$2 billion a year in the servicing of those loans by moving it into the private sector. These savings are an added benefit of privatization.

In fact, our overall plan has \$117 billion worth of asset sale proposals. We feel that if we use that cash from selling assets in lieu of debt financing, under our plan not only would we balance the budget by the year 2000, but we would eliminate the need to borrow in order to finance the debt after the year 1997. Meaning, by selling off government assets and using it in lieu of debt financing, we would free up billions of dollars of capital that is now flowing into government bonds that could be used now in the private sector to start businesses and promote economic growth.

That in short, and very short for a 283-page book, is our vision for the Federal Government as we get ready for the next century. It will be a leaner, smaller, more efficient government. The Federal budget will finally be in balance and now we can begin the task of figuring out how to pay off the national debt.

Last, and I think most importantly, families in America will have more money in their pockets so that they can care for their children in a way that no government program ever will.

Thank you very much. I would be willing to answer any questions you might have.

Chairman ROTH. Thank you, Mr. Hodge.
Mr. Comarow.

TESTIMONY OF MURRAY COMAROW,¹ FORMER EXECUTIVE DIRECTOR OF THE ASH COUNCIL

Mr. COMAROW. Mr. Chairman, it is a pleasure to appear before you once again. I would like to very briefly dispose of what the Ash Council has done, because it is well known to most of the people in this room, and certainly to every Member of the Committee.

It was a serious and surprisingly a political study. It drew upon studies made by similar groups as far back as Brownlow in 1937. I am not here to argue that what we recommended 25 years ago is necessarily the right approach for today. But I think that it is fair to say that every one of the studies that we had examined over the years were basically similar. They came to the same conclusions, not on specific Cabinet Departments, but on the principles that underlie organizational reform and what the limitations of organizational reform can be.

What did the Ash Council accomplish? It helped to transmogrify the old Bureau of the Budget into the Office of Management and Budget. It recommended the establishment of the Domestic Council in the White House. It recommended the establishment of the Environmental Protection Agency, which is extraordinary, because not a single member of the Ash Council, all conservative people, came to the table thinking that they would recommend yet another government agency, in line with what you said earlier, Mr. Chairman.

A negative accomplishment: we played a role in blocking a Department of Oceanography which had been recommended by another group, the Stratton Commission. We made a number of smaller studies which were helpful in varying degrees.

We struck out on Cabinet reorganization. It was rolling along, Lord knows to what end, until Watergate, and then it just collapsed. We struck out on our recommendations with respect to the independent regulatory agencies. We were premature in our belief that regulatory agencies ought to be cut back in various ways and should be headed in some cases by a single person. I might say parenthetically that the Carter administration picked it up mainly in the person of Harrison Welford, the "M" in OMB. He ran with the ball to some degree.

The organizing principle that we quickly came to was that agencies ought to be organized around purpose, that programs which were interdependent should be grouped in such a way as to permit tradeoffs at department levels, in such a way as to avoid excessive requirement for coordination between or among several departments, especially in such a way as to reduce the requirement for White House decisions when the departments disagreed.

¹The prepared statement of Mr. Comarow appears on page 251.

Many decisions, we found, were made at very low levels within the White House. Any notion that when Cabinet secretaries disagree, it goes to the President, simply does not recognize the real world in which the White House operates.

We also disliked client-centered departments, although we did not have the courage that the Heritage Foundation has displayed today to recommend elimination of the Veterans Administration. A litmus test for the determination and courage of the Congress may be the Veterans Administration.

We avoided a mechanistic approach to reorganization. For example, at that time the "span of control," was a popular notion. The magic number was about seven, and we thought that was nonsense. Now I learn that the administration thinks there are too many supervisors, so a correct "span of control" should be about 15. These numbers and any other arbitrary numbers are nonsense.

Another mechanistic approach we rejected was what we called "reorganization by coagulation." Find similar functions and just bring them all together. Anything that sounds like something else ought to be brought together. One of the worst ideas that I have personally encountered in many years is a Department of Science, about which there was testimony earlier today.

We came to the conclusion that some agencies were malformed from the very outset. The Atomic Energy Commission combined, for example, safety functions, meaning licensing and monitoring, with the function of promoting the use of atomic energy. The safety function never had a chance. It was dead going in, because it was overwhelmed by the promotional function. We recommended that they be split and ultimately it was, in another act.

On the other hand, we tried to fit the Environmental Protection Agency within an existing department, but the Council ultimately decided that, because it had to set standards and insure compliance, it could not fit within a department which might be guilty of violations that a subordinate bureau would have to correct.

Some of the things we did did not work out. I mentioned the transformation of the Bureau of the Budget into the Office of Management and Budget. That did not work out. A few years ago, Mr. Chairman, you conducted hearings on that subject. You knew, and I certainly agreed, that the management function in the Office of Management and Budget continues to be subservient to the budget function, and you were then considering a separate Office of Management.

In line with the law of unintended consequences, the OMB reorganization made it much easier for all succeeding administrations to politicize that agency, which they have done. Peter Drucker and many other academics make a good living out of saying obvious things over and over again. For example, "first decide what to do, then decide how to do it." I agree with Drucker and the academics, and the reason they ought to keep repeating it is because people do not listen. I think this committee listens.

The committee also must recognize, and I am sure it does, that even the best, the most brilliant reorganization, will exact a heavy cost. Any of these reorganizations, including the monster reorganization proposed by Heritage, will inevitably result in an imme-

diate and perhaps dangerous decline in service to the American people.

That is true of what we proposed as well. Relationships are shattered, morale goes down and people begin to look for other jobs. Who finds those other jobs? Generally speaking, the best, the most marketable people. So there is a heavy cost connected with even the best reorganization. Further, any notion that it can be done within 3 months as someone suggested earlier, I think is a fantasy.

You asked me when should a function be a Cabinet department as opposed to a separate agency, when should it be an independent agency and when should it be a government corporation? I have no magic answers to these questions, but I have guidelines which are similar to those which have been expressed by others. Cabinet departments ought to be restricted to primary central core functions of government. Education is very important. Yet is not such a function. The Veterans Administration is very important. It is not such a function. The environment is very important. It is not such a function. The more such departments, the more interdepartment conflicts will go to the White House where Lord knows who will settle it.

Government corporations ought to be involved with business-type programs. Where the government offers a service or a product, a government corporation should be considered as an option, not an automatic decision. The GAO report in March 1995 targets about 8 areas where government corporations might be seriously considered by this committee.

Privatization: People who use the word "privatization" without defining it at once should be severely beaten. [Laughter.]

Do they mean commercialization? If so, please define "commercialization." Do they mean corporatization? If so, kindly define "corporatization." If they mean "devolution," which means to take it out of government and sell it off, put it in the hands of the private sector, say so. But whatever it is they are recommending, for heaven's sake, be clear about it.

Consider every privatization proposal on the merits. I have a deep distrust of people who automatically resist privatization, usually for ideological reasons. I have an equally deep distrust of people who have a touching faith that privatization will accomplish miracles, that any time you turn anything over to the private sector it has got to be better.

Well, I have been a very aggressive free enterprise person all of my life, but I do not buy that. Every proposal to truly privatize, some government function should be looked at carefully and a decision should be made whether that is better, or that corporatization is better, or whether it is better to leave it alone. Eric Sevareid famously said, "The major cause of problems is solutions."

Contracting out is a very different matter, and any function that might be better accomplished by the private sector should perhaps be considered for contracting out. Not that this is always better, but it often is.

Several people have referred to air controllers. If you want to privatize that in the sense of devolution, fine. Consider the possible consequences of a strike. If you are willing to accept that as a price, fine. But do not imagine that privatization comes free.

Chairman ROTH. What do you think would happen if you had a major air crash?

Mr. COMAROW. A major air crash, did you say?

Chairman ROTH. Yes, and you had privatized air control. Would that create any problems? What do you think would happen as a result?

Mr. COMAROW. I think that some would certainly demand that government take this back, because people tend to blame whatever organization is in charge. If the air controllers are privatized, then some would say we should not have done that. Now, that may be illogical, but this is the way many would react.

Mr. Madison was mentioned earlier today, and I think the Committee might do well to reexamine Federalist Paper No. 51, where Madison pointed out with great prescience and with great specificity that the government was specifically organized in such a way as to pit department against department and man against man. Nowhere in the Constitution does it say we the people of the United States want a government which does not have overlapping and which operates at the acme of efficiency. I read it again yesterday, and it ain't there. Thank you very much, Mr. Chairman.

Chairman ROTH. Thank you.

I saw you shake your head. Did you want to comment?

Mr. HODGE. Perhaps we can talk about it after the last speaker.

Chairman ROTH. All right. Mr. Eisenach.

TESTIMONY OF JEFFREY A. EISENACH,¹ PRESIDENT, THE PROGRESS AND FREEDOM FOUNDATION

Mr. EISENACH. Mr. Chairman, it is an honor to be here. Thank you for inviting me.

We have heard a lot today that I think is frankly confusing—privatize, do not privatize; independent agencies, no independent agencies; four Cabinet agencies, nine Cabinet agencies, and so forth.

I would like to step back a little bit, if I could, and try to offer a broad perspective on what is happening in the Nation, what is happening in the world and what that implies for government. I want to suggest that the implications are very, very profound, that they go beyond the nature of the notion of restructuring or reorganizing the government. They go to the notion of replacing most of what the government does, of asking very profound questions not only about its role, but about the very way by which it now attempts to accomplish what it does.

There are many ways of thinking about what we all understand to be a transformation of some sort going on in the world. I personally believe that Alvin and Heidi Toffler in their work beginning with "Future Shock" in the 1970's, "The Third Wave" in 1980, and "Creating a New Civilization," a book we have published and made available to you and your staff, have offered the most elegant and eloquent explanation of what we are now in the midst of.

What the Tofflers understood first and best, I believe, is that the information revolution—the crash in the price of information—had much larger implications than just how we talk to each other on

¹The prepared statement of Mr. Eisenach appears on page 255.

the telephone or what kind of computers we have on our desks. It is changing fundamentally our cultural, economic, political and social institutions, and that change is inevitable.

They are not alone in making this case. Peter Drucker, George Gilder, Edwards Deming and many other leaders of thought have come to very much the same conclusions, that we are in the midst of a time of great change in every institutional component of our society, and that the central aspect of that change, the central implication for the purposes here today I think is that large centralized bureaucratic institutions simply do not work any more, a point that Mr. Brownback was making earlier. This is not a matter of ideology: these are simply no longer a pragmatic means of getting things done.

If you look at the history of bureaucracy in this country, it begins with Fredric Taylor bringing the notion of scientific management into the corporate sector, and then progressives of both parties from Herbert Hoover to Franklin Roosevelt, applying what was at the time a cutting-edge theory of how to manage government. It was a reform movement, the progressive movement, a reform movement to end corruption and replace it with a theory of scientific management and to bring that to bear on the government. And for many years it worked.

For those who are critical of the New Deal and of that system of power, I ask them what beyond IBM, General Motors, NATO, Normandy, a man on the moon, and ultimately the defeat of the Soviet empire, to what higher standard would you hold a system of organizing a society than that standard? That worked for many years and it worked imperfectly in many cases, but it worked well and with tremendous success.

The problem we face today is that that system of organizing human endeavors is dead. It is intellectually bankrupt. It is no longer the way that we accomplish great things in society, and we see that all around us, for example in the fact that two-thirds of all the new jobs in America in the last 25 years have been created by small businesses, not the large corporate bureaucratic Fortune 500.

We see it in the fact, a stunning fact to me, that half of all of the capital investment in the United States next year will be for information technology according to Dunn & Bradstreet.

We are moving into a new era. And what it means, I believe is two things: First of all, a very significant part of what the Federal Government does today is obsolete. The challenge for this generation of policymakers is no less than remaking probably most of what the Federal Government does from the ground up.

Second, and more troubling and more frightening, everything we know about how to create and run Federal programs is questionable and most of it is wrong. Now, if you have followed the literature of what is happening in corporations, they have learned that you enter into restructuring exercises, you bring in a corporate reengineering consultant, and it turns out to be much more profound and much harder than you thought it was. That was my reaction to listening to some of the reactions to your question about a commission this morning.

"We know what to do. We will eliminate four agencies, we need to do it now, we need to move quickly, the American people have spoken." The American people have spoken, but we do not have a clue of what to do, and that is why I want to come back to your question on a commission, because I believe very strongly that that is something that is important.

How do we go about accomplishing this task? If we know what we have is wrong, if what we have is obsolete, what do we do?

Most of what I hear today in terms of government restructuring can be characterized or categorized into one of two categories. One is an approach called reform: "let us take our current programs and, in one way or another, inject economic incentives into the regulatory process or privatize or contract out a function here or there, let us take essentially the structures that we currently have and find a way to make them work better."

We have been trying that, Mr. Chairman, for how many years now? How many times must we remake HUD? How many new benefit-cost analysis orders must we have from the Office of Management and Budget? How many Grace Commissions and reinventing government exercises do we have to go through before we figure out that you cannot reform this system to make it work according to any reasonable person's definition of what "work" means in 1995?

The second approach I heard talked about is abolishment. Now, abolishment is fine in one sense. There are a lot of things the Federal Government is doing it should stop doing. But it is also a way of avoiding the hard questions, because I would argue, perhaps controversially, that for many, if not most, of the things the Federal Government is doing today, there is some residual role it should play.

So to say let us abolish HUD, for example, is a vacuous and meaningless statement. There will be a Federal role in national mortgage markets. This is a national marketplace. The Federal Government will write one way or another the institutional framework within which that marketplace functions. So to say let us abolish the Department of Housing and Urban Development, well, it may get you a trophy on your wall that says one Cabinet agency gone, but it does not address the real issue, which is what should the Federal Government do.

I have suggested in testimony elsewhere and in writings a third approach and it is an approach that I call replacement. I believe we must systematically go through every function of the Federal Government and probably nine times out of ten replace them. Which is to say, "abolish and create"—both of those two things, abolish what is now there wipe-the-slate clean, yes, but as part of the same exercise create the alternative. That is responsible government. That will get us where we need to go. That I believe captures the totality of what needs to happen here. We must replace the Federal Government we have with a new set of structures and institutions.

I offer in my testimony five principles for how to go about doing that. It has been a long morning, so I am going to skip the principles and cut to just a couple of examples I offer at the end of my testimony and then make one final point.

As we go about replacing, let me suggest: One of the questions that we ought to be asking is whether government is rowing the boat or steering the boat. David Osborne has suggested we should be steering the boat. Another of the questions is whether the government ought to be doing very much or it ought to be incentivizing others to do. I believe the government ought to be creating incentives for others to do. I do not believe it does now, and I believe that is one of the lessons of this third wave: decentralization, of putting the responsibility back ultimately in people's hands.

In that context, we are going to have to look at the Social Security system. Forget the finance part. It is not a very choice oriented user-friendly system. In 1995, Americans know enough to figure out how to invest their retirement income. They ought to be—again back to the legitimate role of government—they ought to be required to invest for their retirement, but I do not believe that the Federal Government ought to be running that program.

A second example is the Federal Communications Commission. I walk through in my testimony the problem we have with our current regulatory agencies, which are basically piles of spaghetti.

If you are a customer of one of these agencies, if you are trying to start a new business to get something done, you have no knowledge, no way of knowing how to get from point A to point B. If you want to create a new product or start a new business, there is no way you can know what you have to do. Essentially, you are faced with 47 different bureaucrats. It is all ambiguous, it is all nuance, and when you get done it all seems arbitrary.

What we need to do is replace those bureaucratic structures with lean and effective frameworks of laws and institutions, so if I want to create a new product, I am allowed to go from point A to point B without having to go through 47 steps.

On the other hand, if I want to go outside the framework of what is permitted, I want to go from point A to C, I should know with some certainty I will (figuratively) go to jail. I need some clarity of what is legal and what is not, what I am allowed to do and what I am not allowed to do, and for the things that you are allowed to do, you ought to be able to do them without having to go through 47 different steps of a bureaucrat looking over your shoulder.

The final example I would offer, just because it is so timely, I would ask you to think very carefully about the reliance that is currently being placed on block grants as an approach. Why should money be collected from citizens by the Federal Government and given to governors? Can they not go ask for taxes themselves?

Why should money be collected from the citizens of Delaware, come to Washington and then be sent back to the governor, no strings attached? Why did we bring it here? Who are the customers for that kind of program? Are we trying to serve citizens, or are we really trying to serve governors? And if so, why? How would you measure the success of block grants, when the very essence of the approach is to eliminate accountability? That is what "no strings attached" means.

Block grants are ultimately no different from the worst forms of privatization, about which I would also urge caution, simply moving responsibility from one inefficient bureaucracy to another. This is what has happened at NASA, it is what happens in much of the

Department of Defense. NASA is very much a private agency. It is also among the least efficient agencies, and it is because the relevant distinction here is not between government and non-government. The relevant distinction is big, centralized, and bureaucratic versus small, nimble, agile, virtual, and results oriented. That is the distinction we ought to be looking at. To take the FAA or Conrail or Amtrak and transfer it from a big bureaucratic government system to a big bureaucratic private system—I do not know that that gets you much, nor does it necessarily at the State level. We ought to be saying how do we get power back in the hands of people when it comes to block grants.

Three final points very quickly. First of all, we have also published a budget plan, and we have in particular looked at the question of block grants. We are proposing in a book that will be out later this month, but has been made available to you and your staff, taking the Federal Government from 22 percent today down to 15.5 percent of GDP over 7 years. That is a cut of about a third in the size and allows us to go dramatically beyond the current tax cuts and get to the question of what size should the Federal Government really be.

It is called "The People's Budget," because we believe this is what the American people are looking for. It is not about a 5 or 8 percent cut, but a dramatic restructuring of government. When you are done with that, you are going to be looking at an institution that is a third smaller, maybe more. The correct size of government in the 21st Century, at the Federal level, is not 22 percent, it is not 18 percent, it may be 15, it may be 12, it may be 10. But it is not where we are today, and we have taken a first step toward getting there.

Second, I want to strongly endorse your idea of a commission, because the truth of the matter is—and I think the cacophony that you have heard today is emblematic of this—I do not think we have a clue. I think that we are entering into a very different time. I think the efforts of corporations to down-size, restructure, become virtual, create team-based systems are still nascent, they are still developing, they are still inchoate. There is not even a clear theory in the private sector, and we have not begun to think through how to apply those theories and all of what we are now learning to the Federal Government. The notion that we have some idea that we are going to do this in 3 months is lunacy.

We are in a time, Mr. Chairman, more like 1933 than any other recent period in our history. In 1933, the truth is the New Dealers did not have a clear sense of where they were going. They were making it up, and it took arguably 30 years for the New Deal, certainly it took a decade. It was not until the end of the 1930's that you began to see a coherent theory of governance emerging out of the New Deal.

We are at a time very much like that and we should be looking at a period of decades, certainly a decade in which we will be re-making this Federal behemoth into a 21st Century institution. A commission today could begin the process of defining that decade-long process, and that sorely needs to happen. Thank you.

Chairman ROTH. Thank you. I appreciate the testimony of all four of you.

Government, of course, and the kind of restructure of what becomes important is what is the art of the possible and it is a fact that currently we do really for the first time in the many years I have served here have great interest not only in Washington, but among the people back home. And I think, as some of the testimony earlier pointed out, that the public wants action now. So we have the problem, if we move now, we really do not have the comprehensive framework as to where we should try to head. And I agree with you, that whatever we do anyway is going to be a continuing challenge.

So somehow we have to do something now in order to keep the momentum and the interest and desire to do something. I happen to be very much a believer that, even though the reforms we made are budget driven, the basic reforms of this government have to be technology driven. As you say, it is a new world, and I understood it.

How do we harness these forces so that we really make some progress? There are a number of proposals to eliminate departments. Is there anything wrong with that? That does help meet the challenge of the deficit and so forth. Can that be looked upon as a short-range step as we proceed to some kind of a commission that develops the kind of comprehensive framework that really will utilize modern technology?

I have said many times to myself, I probably borrowed it from you, I do not know, that we are moving from the industrial age to the information age, and the needs are entirely different. If we do not do anything now, then you have the problem of the various interests. I am not using interests in a negative sense, but it is going to be hard to get anything done. I, for years, have proposed that we restructure and reorganize and have a commission to try to reinvent government, but it was a dead issue. It is not dead now.

I guess one of my questions for all of you is how do we harness this interest, this vitality to insure that we take the right steps. The budget is going to require elimination and reduction of programs and agencies. Is there anything wrong with that?

Mr. EISENACH. I would offer just a couple of thoughts. First of all, I think that restructuring within the current system can only be harmful to the extent we delude ourselves that it is an end point, as opposed to a starting point in the process. So I see no harm in it and it can often be beneficial.

Reorganizing General Motors a la 1968 did not make General Motors a la 1995, but it did not hurt. So I think within the current paradigm there is a lot you can do, and I think the current budgets, both in the House and the Senate and a lot of the things that are being done in the House and the Senate do that. So I think we are moving in the right direction.

The challenge for you, Mr. Chairman, and not getting into politics here in any sense, but, rather, political science, the role of a majority party in the United States is to lead the civic discussion about the future of the Nation. That is a continuous process. A minority party plays a different role. A minority party is to critique specific things the majority party proposes.

Now, as a party that has been a minority for most of its history, the new majority does not always understand the process of a con-

tinuous leadership role in conducting a discussion with the American people about the Nation's future.

The budget process is in that sense not an end-game by any long stretch of the imagination. The challenge is to tell ourselves, for you and your fellow Republicans to tell yourselves that, having done this thing, the job is not done. The job continues tomorrow. If you think about how the previous majority has run the Congress for many years, it has lived by that model. It has in fact gotten up the next morning, having accomplished one thing, and begun the process of taking the next step forward. Every day is a step forward. That is the legitimate role of any majority party. The commission that you are proposing I think is the next step forward.

Chairman ROTH. Thank you. Mr. Comarow.

Mr. COMAROW. Mr. Chairman, I would like to draw a distinction between the public's instinct for change, which undoubtedly exists, and the public's interest in reorganization, which in my view does not exist.

We did a number of studies when we were doing our job, and the public could not care less about whether we have 8 Cabinet departments or 7 or 9 or whatever. The public wants change that will benefit it. And as I mentioned in my testimony, the immediate result of any reorganization will be a decline in public service, not an improvement in public service.

So you will want to think about whether ultimate benefits that may be achieved by more rational organization are important enough to overcome the costs of reorganization, which I guarantee will exist.

I, too, agree with the concept of a commission, provided that it does not consist of people who will argue for specific interests and specific points of view. That will only result in those few members of the commission who are perceived as neutrals becoming the arbitrators or mediators among various interest groups.

There is a powerful notion which says, "let us get all of the parties in, say union and management, for example, and if we don't please both sides, we must be doing the right thing." I think that is fatuous. You can displease both sides and still be doing the wrong thing. One side may be right, or one side may be much more correct than the other. It is imperative to assemble a commission of men and women who are perceived and who really are objective and who do not have special axes to grind. With that caveat, I totally endorse the commission concept.

Chairman ROTH. We are going to have written questions later. One of my questions is I would like to have any suggestions any of you gentlemen have as to people who you think should serve on the commission that has the background and knowledge and foresight to lead us in the right direction.

Mr. Hodge, do you want to make any comment?

Mr. HODGE. Yes, Mr. Chairman. I am a little less enthusiastic over commissions in general. I understand that they have sometimes worked very well. The Base Closure Commission is perhaps the best example. At the same time—and Mr. Kettl and I were talking about this before the hearing—there have been a dozen or so formal attempts to reorganize government over the last many decades and government seems to get larger after each attempt. I

am not always certain as to why that is, but it is an unfortunate consequence.

I think what we need to do is look at accountability. Commissions are only useful if members are seeking political cover for tough choices. It is not because the members of the commission are all that smarter than the people who are elected to the House and the Senate. I think it is important to send a message on whose ideas these are.

To get to Mr. Eisenach's point about the political leadership, we have a new political leadership in Congress and I would like to see the ideas that come forward on restructuring government come from that political leadership, if nothing else because of the accountability that comes with it, so the American people know whose ideas these are.

They may not know because we brought in some oracles to sit down on a commission to hand down a proposal. But much like we saw Maggie Thatcher do in Britain in terms of the great innovation that she brought to the British government through privatization and many other techniques in that effort. At least the British people knew who was accountable for those and if they disagree with that proposal, they can throw them out and bring in the Labor Party, for instance, which gets us around to the point of reorganization.

I think accountability is what we have to bring to government at all levels. We need to find the solutions. The reason government does not use technology very well is because there are no penalties for not doing so. Bureaucrats are not punished because they are not using the most modern equipment. Let us look at a side-by-side comparison of the post office and Federal Express. I can sit at my desk in my office and track my package across country using software I have gotten from Federal Express.

The Postal Service's tracking system is a bit more primitive. They just found last year a semis' worth of mail sitting in the back parking lot in Northeast, Washington, D.C., that they forgot to deliver. That is the comparison of government that is basically insulated from penalties, and an institution that suffers dramatic and drastic penalties in the marketplace, and that is Federal Express.

What we have going on is essentially, getting back to privatization, the privatization of government services without the consent of government. The marketplace is stepping in with fax machines, with Federal Express, with all kinds of technology with the Internet in order to avoid using government, and so the government in many cases is becoming irrelevant, and we have yet to realize that.

I think it is because the marketplace moves so quickly—and this is why I am against Mr. Walker's idea of a government technology department—the marketplace moves so fast, government will never catch up. The less government does, the more it stays to purely national issues, rather than sub-issues in the marketplace, I think the better off we will be. The marketplace will do wonderful things. I have far more confidence than some of my colleagues here in what the marketplace can do.

Mr. KETTL. Mr. Chairman, I have great confidence in the marketplace, as well, although I guess where I disagree a bit with what

we have just heard is that I suspect that Federal Express and the Postal Service may very well be equivalent, if the power company, for example, spent \$10 apiece to mail out each utility bill—32 cents or less if it is presorted. This produces a different level of service, and I am not sure the comparisons are apt.

I spent an hour on a radio talk show back in Wisconsin the other morning and we were talking about all of this, including the effort to try to balance the budget. Not a single question came up about the idea of restructuring the Federal Government, to the point that the host three-quarters of the way through was puzzled. He said, "Do you mean to tell me that there are proposals to eliminate three departments?" We were not even talking about some of the bolder ones. And not a single caller called up in reply.

I think Mr. Comarow's advice is wise on this. The drive to try to shrink the deficit is overwhelming and the interest in restructuring for its own sake is almost nil, that in fact what the public is demanding is a shrinkage in the size of government and a reduction in the deficit itself.

There is not a single bit of evidence that a fundamental restructuring will in and of itself reduce the deficit or improve the efficiency of government programs. It may improve the quality of service and improve the quality of the coordination of programs. But restructuring in itself is unlikely to produce massive savings, and that is the evidence that we have from generations worth of experience there.

On the other hand, what we have is a set of proposals to try to restructure the government. We need to do both, but we need to be clear why we are doing each. We can cut programs to shrink the deficit. We can reorganize government to improve services.

But the idea of reorganizing government to cut the deficit is running the risk of selling citizens snake oil. If citizens buy it and are unhappy with the taste—if as will certainly be the case, any kind of restructuring in the short run worsens the quality of the performance of government programs—we may very well end up much worse off in the long run and have the public more angry than in fact they are now.

I am struck and puzzled by conversations that I have had with foreigners who look at the debate that we are having now over restructuring, including an expert from Australia I talked to the other day who was scratching his head and trying to figure out and understand the debate. Australia has 10 years of experience of in fact doing precisely what we are trying to do. They did it in a way very different from this, and they are puzzled at our efforts to try to do it in this kind of way, because they are convinced that everything that they know points in the opposite direction.

Chairman ROTH. I certainly agree that the public is interested in reduction of cost and size of government. I personally think that there is also a very, very strong outrage with the inefficiency of government. I do not think anyone argues, I do not know of anyone that argues that government—as Chairman of Governmental Affairs who has served many years on this—nobody is really interested in what we do on this Committee. In the last few months, because of the deficit, it has changed somewhat. But fundamentally this is an in-house problem.

Nevertheless, there is outrage back home that people are not getting fast service when they compare it with what they get in the private sector, and that is the reason I cotton to much of what you are saying. It is how do we utilize this new technology in providing better service.

A couple of years ago, this Committee enacted legislation on performance goals, and I think that is an important step forward. But part of my concern is that I think we need to have some kind of a plan. We are going to eliminate or do away with certain departments and agencies and programs, and I think that is good. But then we have got to create, and the question is how do we create. The easy part really is to delete.

Mr. KETTL. That is right, Mr. Chairman. The easy part is to go through and try to figure out what programs you want to eliminate, and that is what we have to do first. If I may suggest so boldly, what if instead of restructuring the government, as the next step after we decide what to throw away, that we work on trying to make better what we decide we want to keep, and then make the issue of what kind of structure we need to do that the last step in the chain, and not the first? I think that the focus on government performance provides a way and some incentives for doing that.

I just ask the fundamental question: If we decide, for example, we want to do away with the Corporation for Public Broadcasting, but keep the Postal Service, what would happen if we spent the energy that we would otherwise spend on restructuring the government simply figuring out smart ways of making the lines in the post office shorter and the quality of mail delivery better? What would happen as a result of that? It may very well be that we would discover in that a far better answer to the concerns on citizens' minds than on an enormous amount of effort spent shuffling boxes that is sure to hurt performance in the short run.

Chairman ROTH. Time is moving on, so I do not want to keep you here much longer. A couple of questions came up in my mind. In the Heritage plan, you maintain the four departments, Treasury, Defense, the State Department—what is the fourth?

Mr. HODGE. The fifth is we remake HEW effectively, we keep Health and Human Services. So we have State, Defense, HHS, Justice and Treasury.

Chairman ROTH. But you create some new bureaus?

Mr. HODGE. Through the process of down-sizing some current Cabinet level departments—

Chairman ROTH. One of my concerns right now is all this concentration on elimination. But it seems to me we also have to address the problems of the 21st Century. To me, the most critical problem we face as a Nation is competitiveness in this new global economy. Our ability to compete there is going to give us the ability to create the kind of meaningful jobs we want for our people.

One of my concerns is that so much of the emphasis now is deletion, and I think that is a first step. But I was interested, as you delete in the Heritage proposal, you are admittedly creating new bureaus, but, nevertheless, they are new functions. So I gather you do agree that we would have to create some mechanisms for some of these activities.

Mr. HODGE. Certainly, as you begin to reduce Cabinet departments and streamline, you have to find homes for some programs that we still do want to keep that we do consider important, and yet need a place to rest that rationalizes many diverse things.

For instance, we create a Bureau of National Statistics. Statistical functions of government are scattered throughout multiple agencies and there is little or no communication between these various statistical branches. Whether it is Census, the Bureau of Labor Statistics, and so forth, virtually every agency in government keeps statistics in one format or another.

We feel it is important to sort of take those statistical functions out of the political policymaking process and collapse them into a single Bureau of National Statistics, to try to rationalize statistical functions and make them independent and also in one place where you can have a culture that promotes sound statistical analysis and brings out the best in these individuals.

Chairman ROTH. Let me change to a matter you brought up, and that is these Cabinet departments. One of the important things to various groups, whether it be business or labor or veterans or whatever, is they feel they have an effective voice, and to most that means that you are a member of the Cabinet because that puts you in contact with the President who is, after all, the top of the hierarchy. It is very important, and understandably.

Now, as we eliminate, reduce and consolidate, you have a pretty small Cabinet if you just had those members there. Mr. Comarow, does it make sense that whatever your restructuring is, that you give recognition to these significant groups, such as labor or business, somebody with Cabinet status so that they are part of the Cabinet?

Mr. COMAROW. I think that it is the function of this committee and of the Congress to resist precisely those pressures. It is a fundamental mistake in governance to have a department which represents a given profession or a given group.

Chairman ROTH. I am saying, as you consolidate, eliminate and reduce departments, would there be any merit—let us say you eliminate Labor and Commerce Departments—that whoever is the top person in government on commerce be a member of the Cabinet? After all, commerce is a pretty important interest, and so is labor.

Mr. COMAROW. As you know, we recommended a Department of Economic Affairs, which would have merged the interests of Labor and Commerce and others and permitted a tradeoff at the Cabinet level.

Chairman ROTH. Does anybody else have any comments?

Mr. EISENACH. One thing I would suggest thinking about, having served in an independent agency, one question that ought to be part of this is the distinction between the roles of the executive and the Congress.

I would question whether it is a proper role of the executive to serve that constituent service function, to have representative Cabinet officers who are sort of "super Senators" serving the business community or the labor community or the education union or whatever, as opposed to taking that representative function, which obviously is part of a democracy, and recognizing that is Congress' role.

We do not need "super Senators" serving as Cabinet officers. What we need is for the Congress to do its job in representing these constituencies. What we would hope the executive branch would do would be to carry out the tasks, to execute, to get the results that come out of that political process.

Chairman ROTH. Let me turn to one further thing, and then we will put our further questions in writing. This came up during the course of the testimony. We not only do not do away with old agencies or commissions or whatever we create. The same is true of the laws on the books. One of the favorite things of Congress is to pass the same legislation every 2 years, so we can go home during a campaign and say, well, look at what we did. They do not say it was already on the books in maybe slightly different form.

Seriously, does that make difference, or would it be helpful to really try to get our authorizing committees and so forth as part of their overview to come up and streamline and eliminate the unnecessary duplication? Forget for a minute trying to change the substance, which obviously is controversial, but just trying to reduce the duplication. We talk about duplication of jobs. I dare say we have got as much duplication in laws. Would that be worthwhile? It would take a lot of time and attention.

Mr. KETTL. That is certainly the case, Mr. Chairman. One of the things that we often forget is that the executive branch is not like the private sector. The President is not really the chief executive officer. He happens to be the elected head of the executive branch, but the executive branch is the creature of what Congress does.

The number of Cabinet departments, the programs that they administer, the amount of money that is spent is the decision made by Congress and not by the President. The programs, the duplication, everything that comes through is a creature of Congress itself.

One of the interesting discoveries the Department of Transportation has had on this is that they are in the process of trying to reorganize. They have merged a whole set of different agencies that were formerly responsible for different modes of transportation, put them into a single intermodal transportation agency, particularly unfortunately named, because it does not produce a good acronym and chokes the tongue on the way down.

But what it does is the bold idea of taking all different forms of transportation that State and local governments are concerned about, puts them in a single agency so that there is one-stop shopping, which makes eminent sense. The difficulty, however, is that they have gone as far as they can go without getting fundamental changes in the law, because Congress still appropriates the money in individual categories that were reflected by the previous agencies that exist.

So there is a limit to the amount of coordination that is possible in the executive branch by the agencies, as long as there is uncoordinated action by Congress. This makes sense, given the Committee structure, but this nevertheless is largely responsible for the fragmentation that the executive branch often has to try to deal with. You cannot very well solve the executive branch's problems until you redefine the nature of congressional action that sometimes creates it to begin with.

Mr. HODGE. One of the interesting things that I think this committee could help out with in this effort to streamline and restructure government is to look at laws that essentially force the bureaucracy to waste money. We have 30 to 40 different laws on the books that prevent the executive branch from studying privatization, even studying market pricing for the power market administrations, or even studying privatizing Amtrak. So we have all these laws on the books that keep bureaucrats from finding innovative ways of saving money.

The Park Service is not allowed to contract out for garbage collection, and so we have guys dressed up in park ranger outfits collecting garbage and shoveling snow. Those things do not make sense, and yet Congress is preventing the bureaucracy from doing that.

The Davis-Bacon Act for 60 years not only has raised the costs of—

Chairman ROTH. I agree with much of what you are saying, but what I am really talking about is trying to not get into those substantive things. Those are obviously done for political reasons, you are absolutely right. But at the same time, I am just talking about the environment of law we have created.

Mr. EISENACH. I would argue that what you are suggesting is something that needs to be done. What we have is a system where you have built up layer upon layer upon layer of U.S. Code. I think a systematic effort to go through the United States Code, and I would suggest that the simple rule ought to be, if you are not replacing 10 pages with one, you ought to have to come back to somebody and explain why. That would be a simple-minded goal, but a good one.

Once that is done, the other thing that just ought to be done—and this is where I think really a systemic would get you to be able to ask some big questions like this—I would suggest that there ought not be any law passed without a 5-year sunset provision, that there ought be no permanent law. We are living in a time of continuous change. The situation is—

Chairman ROTH. I used to offer that as an amendment in the early years on this committee.

Mr. EISENACH. I think that is a good idea and I think it is especially appropriate today. In fact, it is necessary today.

Chairman ROTH. Gentlemen, it has been an extended morning, but I want to say that I appreciate very much the testimony and answering of questions by each one of you. We would like to continue to call on you as we proceed, because I think you are right, it will be at least a 10-year project.

Thank you again.

Without objection, a statement submitted by Senator Bond will be made a part of the record of the hearing.¹

Chairman ROTH. Thank you.

The committee is in recess.

[Whereupon, at 12:32 p.m., the Committee was adjourned.]

¹ The prepared statement of Senator Bond appears on page 237.

APPENDIX

PREPARED STATEMENT OF CHARLES A. BOWSHER

Mr. Chairman and Members of the Committee:

I am pleased to be here to discuss with you some of the issues surrounding government reorganization. Much attention is being focused today on improving the delivery of services to the American people by identifying and eliminating inefficiencies in the way the executive branch is organized to operate. It will be a complicated challenge, however—one made even more complicated by the fact that we are in a period of government downsizing and budgetary pressures. Big changes are looming for the federal government, as trillion-dollar budget-reduction proposals in both houses have made perfectly clear. While budget reduction and eliminating redundancy are driving the reorganization agenda for the moment, difficult choices remain to define both the role of government and the right organizational structures for delivering services to the public.

The current structure of government grew up over time and as a result of decisions that, at various junctures, were based on specific needs or problems. Our recent reports relating agency spending and personnel levels to budget functions show just how complex the delivery of services has become.¹ What our charts cannot capture, however, are the intricacies of the political environment in which the system has and will continue to evolve. Political considerations will, of necessity, influence any attempt by the Congress to reorganize the federal government.

We have identified some useful principles that you may wish to keep in mind as you proceed. Based on our observation of other efforts to reorganize or streamline government in the past—both here and outside the United States—these principles are:

- Reorganization demands an integrated approach.
- Reorganization plans should be designed to achieve specific, identifiable goals.
- Once the goals are identified, the right vehicle(s) must be chosen for accomplishing them.
- Implementation is critical to the success of any reorganization.
- Oversight is needed to ensure effective implementation.

Reorganization Demands An Integrated Approach

The case for reorganizing the federal government is an easy one to make. Many departments and agencies were created in a different time and in response to problems very different from today's. Many have accumulated responsibilities beyond their original purposes. As new challenges arose or new needs were identified, new programs and responsibilities were added to departments and agencies with insufficient regard to their effects on the overall delivery of services to the public. In the absence of an integrated approach, situations such as the following have evolved. Each of these has been highlighted in GAO reports or testimonies:

- The federal food safety system, which took shape under as many as 35 laws and is administered by 12 different agencies, does not effectively protect the public from major foodborne illnesses.² The system lacks coherence because the basic structure was created and continues to operate in a piecemeal fashion and in response to specific health threats from particular food products. Not surpris-

¹ *Budget Function Classification: Agency Spending and Personnel Levels for Fiscal Years 1994 and 1995* (GAO/AIMD-95-115FS), April 1995 and *Budget Function Classification: Agency Spending by Subfunction and Object Category, Fiscal Year 1994* (GAO/AIMD-95-116FS), May 1995.

² See, for example, *Food Safety: A Unified, Risk-Based Safety System Needed to Enhance Food Safety* (GAO/T-RCED-94-71, Nov. 4, 1993).

ingly, efforts to address food safety issues are hampered by inconsistent oversight and enforcement authorities, inefficient resource use, ineffective coordination efforts, and inflexible and outdated inspection practices.

The federal government has 163 separate employment training programs scattered across 15 departments and agencies and 40 interdepartmental offices, which in turn channel funds to State and local program administrators. Given the size and structure of these and other welfare programs, the vulnerability to fraud, waste, and abuse is considerable. Moreover, little is known about the effectiveness of many of these programs; most of the agencies that administer employment training programs cannot say if these programs are actually helping people to find jobs.³

- The federal government funds over 90 early childhood programs in 11 federal agencies and 20 offices. The Department of Health and Human Services runs 28 of these programs, while the Department of Education runs 34. Of the key programs we identified, 13 targeted economically disadvantaged children from birth through age 5—meaning that 1 disadvantaged child could potentially have been eligible for as many as 13 federal programs. And yet many of these programs reported serving only a portion of their target population and maintaining long waiting lists for services. Further, in 1990 (the most recent year for which comprehensive data were available), most disadvantaged preschool-aged children did not participate in any type of preschool program.⁴

Examples like these tell us a few things. First, they tell us that the lack of an integrated approach to government leads to redundancy and waste. They tell us that the government can make huge efforts to provide services to the public, yet still fall far short of its intentions because of faulty coordination of its efforts within and across agency lines. And they tell us that those who pay the biggest price for a tangled bureaucracy are the taxpayers, who deserve much better.

Under the circumstances, it is not surprising that new proposals are being heard to reorganize the executive branch. The administration has taken the National Performance Review beyond its initial examination of how government should operate, to asking questions about what it should be doing. By the end of April 1995, this had already led to restructuring proposals for 10 major agencies by the end of April 1995,⁵ with the Department of Health and Human Services added in May. In Congress, committees in both Houses have gone even farther, mobilizing to study and make far-reaching decisions on the role of government, its basic functions, and organizational structures. Today's hearing is testimony to this committee's overriding interest in these fundamental issues.

The importance of seeing the overall picture cannot be overestimated. For example, consider our own work on the role and missions of the Department of Energy (DOE). We testified⁶ that DOE's mission and priorities have changed over the years, making DOE very different from what it was in 1977 when it was created in response to the nation's energy crisis. While energy research, conservation, and policy-making dominated early DOE priorities, weapons production and now environmental cleanup overshadow its budget. New missions in science and industrial competitiveness have emerged. In addition, DOE suffers from significant management problems. We believe that any discussion of major restructuring within DOE should start with basic questions about the need for, and the best place for implementing, each mission.

But these questions cannot be considered without a view to the broad context within which these missions are carried out. Deciding on the best place to manage DOE missions involves an assessment of the advantages and disadvantages of various structures on the basis of their potential for achieving the missions and gaining efficiency. Potential efficiency gains from moving parts of DOE to other agencies need to be balanced against the policy reasons that led to the original structure. Moving DOE missions to other federal entities—such as assigning the weapons complex to the Department of Defense—will clearly affect the missions of each "gaining" agency. In addition, some DOE missions—in science, education, technology competitiveness, and environmental waste, for example—might best be combined with missions from other agencies.

³*Multiple Employment Training Programs: Major Overhaul Needed to Reduce Costs, Streamline the Bureaucracy, and Improve Results* (GAO/T-HEHS-95-53, Jan. 10, 1995).

⁴*Early Childhood Programs: Multiple Programs and Overlapping Target Groups* (GAO/HEHS-95-4FS, Oct. 31, 1994).

⁵*Government Reform: GAO's Comments on the National Performance Review* (GAO/T-GGD-95-154, May 2, 1995).

⁶*Department of Energy: Need to Reevaluate Its Role and Missions* (GAO/T-RCED-95-85, Jan. 18, 1995).

In short, one cannot underestimate the interconnectedness of government structures and activities. Make changes here, and you will certainly affect something over there. And just as the lack of an overall vision created many of the inefficiencies that exist in the federal government today, reorganization efforts that ignore the broader picture could create new, unintended consequences for the future. For this reason, it is imperative that Congress and the administration form an effective working relationship on restructuring initiatives and regulatory changes.

The parallel efforts in the legislative and executive branches will undoubtedly generate many innovative and thoughtful ideas for reconfiguring federal agencies and programs. But we believe the best chance at creating fully integrated approaches to reorganization will be created if Congress and the administration consider these ideas together. Any systemic changes to federal structures and functions must be approved by Congress and implemented by the executive branch, so each has a stake in the outcome. Even more importantly, all segments of the public who must regularly deal with their government—individuals, private-sector organizations, States, and local governments—must be confident that the changes put in place have been thoroughly considered, and that the decisions made today will make sense tomorrow. The regulations and procedures surrounding federal programs need to be streamlined and made more understandable, so that the public will find these programs easier to use and federal employees will find them more practical to manage.

As Congress and the administration consider reorganization, there are lessons to be learned from previous reorganization efforts. The first Hoover Commission,⁷ which lasted from 1947 to 1949, is considered by many to have been the most successful of these efforts. The membership was bipartisan, including members of the administration and both houses of Congress. Half its members were from outside government. The commission had a clear vision, making reorganization proposals that promoted greater “rationality” in the organization and operation of government agencies and enhanced the President’s role as the manager of the government—principles that were understood and accepted by both the White House and the Congress.⁸ Hoover himself guided the creation of a citizens’ committee to build public support for the commission’s work. More than 70 percent of the first Hoover Commission’s recommendations were implemented.

By contrast, the second Hoover Commission, which lasted from 1953 to 1954, had a make-up very similar to that of the first, but it did not have the advance backing of the President and the Congress. Hoover II, as it was called, got into policy areas with the goal of cutting government programs. But it lacked the support of the President, who preferred to make use of his own advisory group⁹ in managing the government. And it lacked the support of Congress and the public, neither of which cared to cut the government at a time when federally run programs were generally held in high esteem and considered efficient and beneficial.¹⁰ More than 60 percent of Hoover II’s recommendations were implemented, but these were mostly drawn from the commission’s technical recommendations rather than from its major ones (such as changing the government’s policies on lending, subsidies, and water resources) that would have substantively cut federal programs.¹¹

The lesson of the two Hoover Commissions is clear: if plans to reorganize government are to move from recommendation to reality, creating a consensus for them is essential to the task.

That lesson shows up again in the experience of the Ash Council, which convened in 1971–72. Like the first Hoover Commission, the Ash Council aimed its recommendations at structural changes to enhance the effectiveness of the President as manager of the government. In addition to renaming the Bureau of the Budget the Office of Management and Budget, the Ash Council proposed organizing govern-

⁷The commission’s formal name was the Commission on Organization of the Executive Branch. Its membership: Former President Herbert Hoover, Dean Acheson, Sen. George Aiken, Rep. Clarence Brown, Arthur Flemming, James A. Forrestal, Joseph P. Kennedy, Rep. Carter Manasco, Sen. John L. McClellan, George Mead, James J. Pollock, and James Rowe.

⁸Ronald C. Moe, *The Hoover Commissions Revisited* (Boulder, Colorado: Westview Press, 1982), pg. 2.

⁹Called PACGO (the President’s Advisory Council on Government Organization), it was chaired by Nelson Rockefeller from 1953–1958. PACGO drafted 14 reorganization plans that were presented to the President and accepted by Congress. Ronald C. Moe, *Reorganizing the Executive Branch in the Twentieth Century: Landmark Commissions*, Congressional Research Service, March 19, 1992, pg. 34.

¹⁰Moe, pg. 105.

¹¹*Summary of the Objectives, Operations, and Results of the Commissions on Organization of the Executive Branch of the Government (First and Second Hoover Commissions)*, House Committee on Government Operations, May 1963, pp. 31–33.

ment around broad National purposes by integrating similar functions under major departments. It proposed that four superdepartments be created—economic affairs, community development, natural resources, and human services—with State, Defense, Treasury, and Justice remaining in place.¹² But the Ash Council could not gain the support of Congress. Its recommendations would have drastically altered jurisdictions within Congress and the relationships between committees and the agencies for which they had oversight responsibilities. Congress was not thoroughly clear on the implications of the four superdepartments, was not readily willing to change its own structure to parallel the structure proposed by the council, and was not eager to substantially strengthen the authority of the presidency.

Once again, the lesson for today is that reorganizing government is an immensely complex and politically charged activity. Those who would reorganize government must make their rationale clear and must build a consensus if they are to see their efforts bear fruit.

Reorganization Plans Should Be Designed to Achieve Specific, Identifiable Goals

The key to any reorganization plan—and the key to building a consensus behind it—is the creation of specific, identifiable goals. The quest to define these goals is no mere exercise. It will force decisionmakers to reach a shared understanding of what really needs to be fixed in government, of what the federal role really ought to be, of how to balance differing objectives such as cost-cutting and better service delivery, and of what steps need to be taken to create not just short-term advantages but long-term gains.

This point is particularly relevant considering the times in which the current calls for reorganization are being heard. Policymakers are considering reorganization during a period of severe budget pressures and government downsizing. The global economy and America's place in it are in flux and the Nation is redefining its National security needs as the world's only superpower. Meanwhile, the Nation is undergoing a major demographic shift with the aging of post-World War II generation. The temptation may be to react to current pressures, to reorganize to meet current needs. But the effects of today's reorganization plans will be felt far into the future, when the world will have changed again.

As many private sector firms have come to understand, effective organizations cannot afford to be static. Instead, they stay sensitive to the changing environment in which they operate and maintain the flexibility to respond. Reorganizing the federal government to be flexible will be doubly complicated by the fact that the functions of so many of the present departments and agencies are shared or interconnected. An integrated reorganization approach should recognize that the new government structure must be equipped to respond to changes in the environment, not just agency-by-agency, but in a coherent and consistent way.

Regardless of the immediate objectives, any reorganization should have in mind certain overarching goals: a government that serves the public efficiently and economically, that is run in a businesslike fashion with full accountability, and that is flexible enough to respond to change. The Government Performance and Results Act (GPRA) in particular has highlighted another of these overarching principles: a government whose activities are focused on clear missions and whose success is measured in terms of outcomes rather than processes.

Once the Goals Are Identified, the Right Vehicle Must be Chosen for Accomplishing Them

Congress and the President are today involved in a debate about the role of the federal government in the United States. That is an important discussion—and one that has gone on throughout our history.

Even when decisions have been reached as to the areas in which the federal government should continue to play a significant role, there will be important decisions left to make about how that role should be exercised. These decisions involve a number of issues:

- Should the federal government act directly or through another level of government? If the latter, how much control should the federal government exercise? How should performance be measured, whether at the federal, State, or local level?
- For those areas in which the federal government is to act directly, how should the government be organized? Should agencies or departments be organized, for example, around National missions or around customers or users of the programs?

¹² President Nixon, while generally endorsing the Ash Council's proposal, proposed retention of the Department of Agriculture.

- What tools should the federal government use? Many are available, including block grants, contracting out, and other forms of federal involvement such as government corporations and government sponsored enterprises (GSEs).

There is—as we would all expect—no single answer to these questions. A hallmark of a responsive and effective government may be the ability to mix structures and tools in ways that are consistent with overriding goals and principles while providing the best match with the nature of the program or service.

Today, in fact, the government uses a variety of tools to accomplish its goals. In part, that variety is consistent with the various ways in which the federal government can be involved in a given area. For example, in our recent work for you we noted that:¹³

- In some technical or scientific functions—such as energy and space flight—spending on contractors dominates. By contrast, in other functions—such as veterans benefits and services and federal law enforcement—salaries to federal employees take up a larger share of total obligations.
- Federal funds spent on ground transportation are almost entirely in the form of grants or subsidies to others. By contrast, an examination of federal spending on air transportation shows the Federal Aviation Administration (FAA) spending money on salaries and benefits, consultants and purchases from other government agencies, and capital assets.

How then, might Congress and the President think about how the government accomplishes its goals? In addressing this question, I'd like to turn to the three broad issues I raised above.

- *First, the federal government should decide if it wants to act directly or in partnership with another level of government.* Today there is a great deal of interest in expanding the use of federal block grants to the States. Block grants are seen as a way of expressing National priorities while giving States the flexibility to design the delivery systems best suited to their individual needs. The underlying theory of block grants is that the improved integration of federal and State funds will permit administrative savings and improved program effectiveness.¹⁴ States and localities can use the flexibility offered by block grants to provide services more effectively through reconciling and coordinating activities in light of local conditions. Taxpayers, clients, and administrators, as well as those charged with responsibility for overseeing the programs all benefit from these improvements.

The question that arises, however, is one of accountability. A balance must be struck between giving the States and localities flexibility and maintaining adequate accountability from the federal standpoint. Principal concerns at the federal level include ensuring financial accountability over the use of the funds and promoting accountability for program outcomes of national interest.

- *Second, for those areas where the federal government is to act directly, several issues need to be addressed in deciding how the government should be organized.* Should agencies or departments be organized around National missions? Around customers or users of the programs? At one end of the spectrum is a system in which single agencies are matched to single missions. Such a system may eliminate the problem of having different agencies with different cultures approaching the same goal in conflicting ways. It may encourage trade-offs within that mission. It may permit or encourage focused consideration of the best tool for accomplishing the single mission. But it could also create a system in which each agency becomes an advocate—in which all trade-offs between related or competing missions must be elevated. And although it might appear to offer improvements in accountability and simplified service delivery, it is also likely to result in a system in which there are many agencies, each requiring its own administrative structure.

Further toward the other end of the continuum is a government of fewer departments defined by broader missions. Delivery considerations might then lead to a decision to have subdepartments organized by customer/client/recipient. Larger departments might offer advantages of economies of scale, especially in the area of support services. Larger departments—by which we do not necessarily mean “superdepartments” along the lines recommended by the Ash Council—might also facilitate serious discussion about the link between govern-

¹³ *Budget Function Classification: Agency Spending by Subfunction and Object Category, Fiscal Year 1994* (GAO/AIMD-95-116FS, May 10, 1995).

¹⁴ *Block Grants: Characteristics, Experience, and Lessons Learned* (GAO/HEHS-95-74, Feb. 9, 1995).

mental outputs and the outcomes in which Congress and the administration are interested. But they might also create more organizational layers and move decisions farther away from the people most affected by the programs.

- *Third, the government must select the appropriate tool to use.* Block grants—discussed above—are one tool. Contracting out is another. Many agencies already rely heavily on contractors. But while contractors may provide technical skills and knowledge not available within a department, heavy use of contractors can—if not adequately monitored—lead to major problems. For example, we have designated the Department of Energy, the National Aeronautics and Space Administration (NASA), and the Environmental Protection Agency's (EPA) Superfund contracting as high risk areas because of their lack of systems to protect the government from fraud, waste, and mismanagement.¹⁵ The lesson we can draw from our studies of agency experiences with contracting out is that attention must be paid. If an agency is going to contract-out some activity, the agency must spend time beforehand thinking about how it will measure performance and how it will enforce standards.

In general, contracting out will work best whenever the outcome is more important than the process, and it is possible to define acceptable quality in measurable terms. For instance, while the government contracts out for the production of rocket launch vehicles, no one has suggested that it contract out the court system, because in the application of justice, the process is itself the issue. In addition, if federal agencies initiate contracting out with the expectation that it will lead to lower costs and better service through competition, it is important that they be reasonably sure that effective competition will in fact develop. Replacing a single government provider with a single private one may not lead to the hoped-for benefits.

Another option available to the federal government is the establishment of government corporations. Generally, the 21 government corporations currently in operation carry out parts of the government's business-type programs that need a high degree of autonomy and flexibility. The challenge involved in designing government corporations is to balance the need for autonomy and flexibility with the need for accountability and oversight. The Tennessee Valley Authority (TVA), for instance, operates essentially without the oversight required for conventional utilities. Government corporations today cover a range of functions, including producing power (TVA), providing insurance and financial services (the Federal Crop Insurance Corporation), and promoting commerce (the Overseas Private Investment Corporation).

In recent years, Congress and others have expressed concern that the Government Corporation Control Act may no longer be an adequate framework, because it does not provide criteria for when corporations should be formed and how they should be restructured. Additionally, events have shown that using government corporations as a tool can subject the federal government to financial exposure—real or implied—on a large scale. The savings and loan crisis of the 1980s taught us that these exposures should be considered as part of any future decisionmaking on using the government corporation or GSE approach.

Of course, as we consider reorganizing government, there will be situations in which federal responsibility is no longer considered appropriate. Privatization then becomes an option. Privatization differs from contracting out in that it entails no continuing government responsibility for the activity. But as with contracting out, privatizing requires thinking ahead. When we looked at the privatization other countries had done as part of their deficit reduction efforts, we were told consistently that there is a learning curve for effective implementation of privatization.¹⁶ Thinking through the process and establishing specific technical and financial procedures can increase the probability that privatization efforts will be successful.

Implementation Is Critical to the Success of Any Reorganization

No matter what plans are made to reorganize the government, fulfilling the promise of these new plans will depend on their implementation. We will not ultimately be successful in improving the effectiveness and responsiveness of government if we do not also address some basic, longstanding weaknesses in the way most federal agencies operate. Our work over the past decade—including our High Risk studies and management reviews—has shown that many federal agencies lacked consensus regarding their mission and the outcomes they desired.¹⁷ Most lacked the basic pro-

¹⁵ *GAO High-Risk Series* (GAO/HR-95-1 through GAO/HR-95-12, February 1995).

¹⁶ *Privatization Experiences in Other Countries* (B-260308) Letter to Honorable William V. Roth Feb. 6, 1995; and *Deficit Reduction: Experiences of Other Nations* (GAO/AIMD-95-30, Dec. 13, 1994).

¹⁷ *GAO High-Risk Series* (GAO/HR-95-1 through GAO/HR-95-12, February 1995). For examples of work stemming from our management reviews, see *U.S. Department of Agriculture: Revi-*

gram and financial information needed to gauge progress, improve performance, and establish accountability.

In recent years, Congress has taken steps to improve federal management practices and emphasize accountability for achieving results. The Government Performance and Results Act (GPRA), the Chief Financial Officers (CFO) Act, the Government Management Reform Act, and the forthcoming reauthorization of the Paperwork Reduction Act have established a basic framework that should help agencies to improve their performance and business processes.

In passing GPRA in 1993, Congress recognized the magnitude of the changes GPRA would require in most agencies, and, in view of this, phased in the planning and reporting requirements over a number of years. Our work has confirmed Congress' wisdom in choosing this approach.¹⁸ It has shown that setting the right goals and using performance information to make substantial improvements in agencies' effectiveness and to guide resource allocation decisions will not come quickly or easily for most agencies. For example, our recent report to the Committee discussed how foreign countries that are leaders in implementing management reforms, such as Australia, New Zealand, the United Kingdom, and Canada, and that have, in some cases, been making management changes for a decade or more, are continuing to struggle as they seek to make program management and accountability more results-oriented.¹⁹

Moving to a smaller, more efficient federal government that stresses accountability and managing for results will require reengineering federal operations and supporting them with modern information technology.²⁰ Reengineering inefficient work processes and using modern technology offer unprecedented opportunities to improve the delivery of government services and reduce program costs. Unfortunately, as this Committee is well aware, federal information systems projects are frequently developed late, fail to work as planned, and cost millions—even hundreds of millions—more than expected.

As you know, Mr. Chairman, we studied a number of successful private and public sector organizations to learn how they reached their own ambitious improvement goals.²¹ In our resulting report, we describe a strategic, integrated set of fundamental management practices that were instrumental in these organizations' success. The recent congressional reauthorization of the Paperwork Reduction Act of 1995 incorporated essential changes in line with the principles and practices we have identified from our research.

Agencies also need to strengthen financial management to instill accountability and control costs. Reliable financial information is a fundamental prerequisite for improving management of government programs and providing needed accountability for program results. But our work has shown that all too often government financial systems are not able to perform even the most rudimentary bookkeeping functions.²² Without accurate and timely financial information, government leaders continue to be hampered in their ability to control costs, measure performance, or achieve needed management improvements.

With passage of the CFO Act and the Government Management Reform Act, Congress paved the way for the federal agencies to be subject to the same kind of finan-

tializing and Streamlining Structure, Systems, and Strategies (GAO/RCED-91-168, Sept. 3, 1991); *Tax Administration: Opportunities to Further Improve IRS' Business Review Process* (GAO/GGD-92-125, Aug. 12, 1992); and *Department of Transportation: Enhancing Policy and Program Effectiveness Through Improved Management* (GAO/RCED-87-3 and 87-3S, Apr. 13, 1987).

¹⁸ For example, *Managing for Results: Experiences Abroad Suggest Insights for Federal Management Reforms* (GAO/GGD-95-120, May 2, 1995); *Government Reform: Goal Setting* (GAO/AIMD/GGD-95-130R, Mar. 27, 1995); *Managing for Results: State Experiences Provide Insights for Federal Management Reforms* (GAO/GGD-95-22, Dec. 21, 1994); and *Performance Budgeting: State Experiences and Implications for the Federal Government* (GAO/AFMD-93-41, Feb. 17, 1993).

¹⁹ *Managing for Results: Experiences Abroad Suggest Insights for Federal Management Reforms* (GAO/GGD-95-120, May 1995).

²⁰ *Information Management and Technology Issues* (GAO/OCG-93-5TR, December 1992); and *Government Reform: Using Reengineering and Technology to Improve Government Performance* (GAO/T-OCG-95-2, Feb. 2, 1995).

²¹ *Executive Guide: Improving Mission Performance Through Strategic Information Management and Technology—Learning From Leading Organizations* (GAO/AIMD-94-115, May 1994).

²² See, for example, *Financial Management: Energy's Material Financial Management Weaknesses Require Corrective Action* (GAO/AIMD-93-29, Sept. 30, 1993); *Housing and Urban Development: Major Management and Budget Issues* (GAO/T-RCED95-86, Jan. 19, 1995); *Financial Audit: Examination of IRS' Fiscal Year 1993 Financial Statements* (GAO/AIMD-94-120, June 15, 1994); *Financial Audit: Air Force Does Not Effectively Account for Billions of Dollars of Resources* (GAO/AFMD-90-23, Feb. 1990); *Financial Management: Immediate Actions Needed to Improve Army Financial Operations and Controls* (GAO/AFMD-92-82, Aug. 1992).

cial statement reporting that is required in the private sector and by State and local governments. Effectively implementing this legislation must be a top priority, and continuing congressional oversight will be important to ensure results.

Finally, we need to build the capacity of the federal workforce to implement and manage programs more effectively and efficiently. Our work has found that agencies' workforce planning processes do not always work well, and that this has undercut mission effectiveness and critical management support functions.

This is particularly disturbing during a period of government downsizing. Most of the private companies and State governments we contacted in a recent review of their downsizing strategies emphasized the importance of workforce planning to target the right positions for elimination. They stressed that strategic planning decisions about what an organization does and why it does it are an essential first step before making decisions on the appropriate size and composition of the workforce.²³

In creating a workforce capable of high performance at lower cost, federal managers must operate within the civil service system. However, this system is highly complex and often criticized as inflexible and cumbersome. Bringing it into the 21st century will require a fundamental rethinking of how the system should operate. To address this challenge, GAO recently convened a symposium of officials from leading organizations in the private sector, State and local governments, and other nations' governments. The symposium suggested a framework of key principles that we believe can serve as the foundation for civil service reform. In the coming weeks, we will be sharing these principles with the Committee.

Oversight Is Needed to Ensure Effective Implementation

The management weaknesses and lack of sufficient capacity in agencies across the federal government are long-standing problems that will require the sustained efforts of agencies and Congress to make needed improvements. Agencies have the primary responsibility for ensuring that their programs are well-managed, funds are properly spent, and initiatives are achieving the intended results. However, Congress also has an important role to play in both its legislative and oversight capacities in establishing, monitoring, and maintaining both governmentwide and agency-specific management reforms.

I believe that one key step would be for congressional committees of jurisdiction to hold comprehensive oversight hearings—annually or at least once during each Congress—using a wide range of program and financial information. Agencies' program performance information that will be generated under GPRA, and the audited financial statements that are being developed to comply with the Government Management Reform Act should serve as the basis for these hearings, with additional information from GAO and other congressional agencies, the Inspectors General, and agencies' own program evaluations and audits. This information should provide Congress with a comprehensive picture of what each agency is achieving and at what cost.

That understanding by Congress of the performance of the various agencies should give it a measure of how well reorganization is proceeding—whether it is accomplishing its goals, and whether it needs further refinement. The process of reorganization will not stop when a plan is adopted. The key will lie in its implementation and oversight. Reorganizing government is an idea with much potential, but every phase—planning, implementation, and oversight—deserves attention, and every phase must be done right.

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

PREPARED STATEMENT OF ALICE M. RIVLIN

Good morning, Mr. Chairman and Members of the Committee. Thank you for giving me the opportunity to discuss the Administration's views on Government organization and reorganization.

Mr. Chairman, let me begin with a general point that ties my testimony together: When it comes to organization, form should follow function. That is, we should first decide what we think Government should do, and then address the question of whether it needs the numbers of departments and agencies it now has and what changes to make. With this in mind, I want to explain our strategy for making Government work better and cost less and our thinking on how one addresses corporatization, privatization, and contracting out.

²³ *Workforce Reductions: Downsizing Strategies Used in Selected Organizations* (GAO/GGD-95-54, Mar. 13, 1995).

Where We Came In

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

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

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

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

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

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

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

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

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

The NPR: Phase I

In March 1993, President Clinton asked Vice President Gore to lead an effort to reinvent Government. Unlike the 11 previous Government reform efforts over the last century, the Vice President turned to the people who work in the Government to help identify the problems. He believed that—contrary to popular belief—the problem was not the people; it was the systems in which they were forced to work.

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

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

For instance:

- Despite the focus on customer service in the private sector, few Federal agencies had a formal structure for identifying customers. Consequently, they had no formal customer service standards. We recommended that all agencies develop, post, and measure standards as first steps toward changing their agencies' cultures.

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

All told, the NPR's report of September 1993, *From Red Tape to Results: Creating a Government that Works Better and Costs Less*, contained recommendations that were designed to save \$108 billion over 5 years. Since then, the Administration has worked hard to implement those recommendations, some through its own actions and some through legislation on which it has worked closely with Congress.

By the end of 1994, the Administration had:

- taken steps, largely with Congress, to save an estimated \$63 billion over the next 5 years;
- cut Federal employment, as measured by full-time equivalents (FTE), by more than 100,000, putting us ahead of schedule to meet the mandate of 272,900 fewer FTE by 1999;
- published nearly 1,500 customer service standards in over 100 agencies that, in turn, plan to report on their progress on meeting them later this year;
- worked with Congress to enact a landmark procurement reform bill that will streamline the Government's system of purchasing equipment and supplies; and
- spurred the creation of labor-management partnerships across the Government, helping to design and implement the changes needed to reform Government.

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

- As the President likes to say, the Federal Emergency Management Agency has gone from a disaster itself to an effective disaster response agency. It is serving more disaster victims than ever and doing so effectively—whether in the Midwest after the floods, in Los Angeles after the earthquake, or, most recently, in Oklahoma City after the bombing.
- The Customs Service is eliminating its regional offices, cutting its headquarters by a third, and reallocating resources to its front line operations to help implement the GATT and NAFTA agreements.
- The Occupational Safety and Health Administration cut its operations manual for inspectors by more than three-quarters, freeing inspectors to spend less time following rules and more time protecting workers.
- The Small Business Administration has slashed paperwork requirements for certain loans from a few inches to a single page.
- And those thousands of Agriculture Department field offices that I mentioned earlier? The Department is busy closing 1,200 of them and creating "one-stop shopping" centers for farmers.

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

The NPR: Phase II

Late last year, the President launched Phase II of the NPR, shifting attention from "how" Government should operate to "what" it should do. He asked the Vice

President, his senior advisors, and the departments and agencies themselves to develop bold new ideas about what the Federal Government should do, and what it should stop doing.

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

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

For instance,

- The Energy Department proposes to save over \$14.1 billion by privatizing the Naval Petroleum Reserves, ending the clean coal program, selling uranium no longer needed for defense purposes, privatizing four power marketing agencies, and significantly cutting costs through such initiatives as contract reform and restructuring nuclear waste clean-up efforts.
- HUD is refocusing its mission to concentrate on economic development for communities and transitions to economic independence for families. The department is proposing to consolidate its 60 programs into three broad, flexible performance funds and end public housing as we know it by providing funding to families, not public housing authorities. It also is proposing to create a more entrepreneurial Federal Housing Administration by converting it into a Government corporation.
- NASA proposes to save \$8 billion by restructuring its field centers to reduce duplication and align the organization for a smaller mission. It will change the way it works with prime contractors, making its process more results-oriented and returning NASA to its original role of a research and development agency.

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

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

The partnerships will consolidate funding streams and eliminate overlapping authorities, reward desirable results, and reduce micromanagement and paperwork. Of the partnerships in the President’s budget, one would combine 70 education and job training programs, allowing States and localities to develop comprehensive approaches to meet their particular needs. Another would consolidate 107 Public Health Service programs into 17 partnership grants or clusters, which would focus on performance in meeting health objectives that States and local governments set. A third would combine funding for 14 rural development programs and authorize USDA’s state directors, working with State and local governments and the private sector, to help direct these funds to each State’s highest rural development priorities.

Corporatization, privatization, and contracting out

The Phase II focus on what Government should do raises an obvious question: Who should do the work? As we seek to fix responsibility, we are keeping a few basic concepts in mind.

Privatization: divesting Government of all operational responsibility for an activity or service and allowing the private market to meet the need.

Corporatization: creating alternative forms of organization, such as Government-controlled corporations, to ensure better management of a program that serves the public.

Contracting out: procuring a product or service in the private market while retaining Federal responsibility for fulfilling a Governmental function.

1. PRIVATIZATION

In examining whether to privatize a Federal program, we ask the following questions:

Does the public legitimately expect that Federal employees will directly deliver the product or service? That is, is the activity inherently Governmental, so intimately related to the public interest as to preclude the private sector from performing it? As one example, the public expects that judges whose rulings have the force of law will be public officials.

In the absence of a Governmental agency, would the market fulfill the public need? For instance, we deliver medical care in under-served areas or to special populations not because we view medical care as a Governmental function, but because the nation's largely private medical care system has gaps.

Is the service or product susceptible to competition? If not, the Government may opt for regulation, as in the case of public utilities.

With these questions in mind, we proposed in our 1996 budget to privatize the operation and management of the Naval Petroleum Reserve. If the Government didn't operate the Reserve, the market would meet this public need. Indeed, it already meets 99 percent of the public need; the Government actually competes with the private sector.

As we identify activities to privatize or convert to contract performance, we are also exploring whether to help Federal employees create a private entity under an employee stock ownership program, or ESOP. ESOPs can mitigate the adverse effects of change and help employees apply their skills and make the transition to the private sector. Today, about 10,000 ESOPs employ over 11 million workers. The Office of Personnel Management is exploring this option for its investigations function.

2. CORPORATIZATION

In deciding whether to set up a public or publicly-sponsored corporation, we must ensure an appropriate balance between removing Federal controls and shifting risk. We would hardly set up an entity, for instance, that could incur debt backed by the Treasury without including controls to protect the public's interest. The questions we ask in looking at corporatization include:

Is the entity a business-like enterprise; that is, does it deliver a product or service for which a market exists? Is there a reason not to privatize?

For entities that we choose not to move fully into the private sector, we should subject them to Presidential review and, where appropriate, control by including them in the budget; subject them to credit reform; subject them, with limited exceptions, to Title 5 with respect to employment; put them under the head of a department or agency to coordinate programmatic missions or activities; subject them to general policy instructions of the President or agency head; and subject them to limits on borrowing authority.

As you know, a number of governments are experimenting with corporatization. Most notably, the United Kingdom, New Zealand, and Australia have begun to draw sharper lines between "ministries," staffed by civil servants, and "agencies," which operate much like private entities, with chief executives paid at market rates under term contracts, under the umbrella of a ministry. We are anxious to learn from those efforts and to examine how much of their experience applies in an American context.

3. CONTRACTING OUT

While remaining a Federal entity, an agency or program may use products or services that it can purchase in the private sector. On a situation-by-situation basis, the question is, who is more efficient, the public or the private sector. As you know, procedures for making cost comparisons are contained in OMB Circular No. A-76, which we are currently reviewing and revising.

But we do not make such decisions on the basis of cost alone. Other considerations that influence the decision include the Federal Government's need to maintain a core capability to perform a function; and the specialized skills needed for, or short-term duration of, a task (which might argue for contracting out). Finally, some work is inherently commercial.

Cabinet Organization

The question of departmental organization is more complex, for there are many reasons to create, or keep, a department.

Organizing around a customer base, like the Veterans Affairs Department, allows the Government to coordinate programs that serve a particular group: Organizing

around a problem may make sense, as the Nixon Administration did in creating the Environmental Protection Agency. The number of cabinet departments is a consideration: With too many, the President's ability to work with his cabinet is diluted; with too few, the role of each cabinet secretary is unmanageably broad.

Each department costs money, but not nearly as much as the public believes. If we eliminate a department, we will reap substantial savings only if we also eliminate the programs it operates. If we merely "move the boxes around," we will save the cost of the secretary's immediate staff and little else.

The Unfinished Agenda

As we continue to reinvent Government, we need Congress's help to tackle a series of other important items, many of which are in this committee's jurisdiction, that are central to the task:

- Civil Service reform is an important part of the reinvention effort. Organizations are changing the way they perform work, shifting authority to the front lines and empowering employees. We need to bring the civil service system in line with this new reality.
- A second procurement reform bill, which builds on the landmark measure enacted last year, will help streamline large dollar-value purchases—as we did for smaller buys last year—and reduce runaway procurement litigation on information technology contracts.
- Changing the way we plan for, acquire, and manage our information technology systems will allow us to increase the performance of these systems, which are increasingly important to the management of the Federal Government and its programs.
- Financial management and budget account realignment will help us relate cost to performance as part of the budget process.
- Developing, as you have called it, Mr. Chairman, a "practical framework" for integrating various management initiatives, including the Government Performance and Results Act, will improve the budget process.

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

Conclusion

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

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

PREPARED STATEMENT OF R. SCOTT FOSLER

Mr. Chairman and Members of the Committee:

I am Scott Fosler, president of the National Academy of Public Administration (NAPA). It is a privilege for me to be here to participate in your deliberations on reorganizing and restructuring the executive branch of the federal government.

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

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

Over the past two decades, the Academy has conducted numerous studies on Executive branch organization. Drawing on these studies, I would like to offer eight points:

1. Reorganization should be viewed in the context of broader efforts to restructure and improve the performance of government.
2. The central question for any proposed reorganization (or restructuring) should be: what is the purpose?

3. The federal government should learn from the mistakes and successes of the private sector and other governments and leap-frog to the stage of restructuring that focuses on performance.
4. Successful restructuring requires a framework, or at least a robust set of principles, to give coherence to a wide range of complex actions.
5. Any reorganization should account for the numerous initiatives already underway to restructure the federal government or otherwise improve its performance.
6. The framework or principles of restructuring should be adapted to specific organizations, policy areas, and circumstances.
7. The federal government needs a strategy for restructuring, which includes but is not limited to reorganization.
8. The federal government needs capacity to design and implement plans for reorganization and restructuring.

Let me elaborate each of these points.

1. *Reorganization should be viewed in the context of broader efforts to restructure and improve the performance of government.*

The term "reorganization" generally refers to changing the structure of departments and agencies and the location of programs and functions. While important, this is but one dimension of organizational performance, which is also determined by mission, systems, processes, and people. All of these dimensions need to be viewed comprehensively in the broader context of "restructuring" government.

Phase I of the National Performance Review (NPR) studiously avoided "reorganization" in its early stages. Apparently, the NPR wished to avoid the "mindless box shuffling" commonly associated with shifting programs or agencies from one department to another. Phase II of the NPR, by contrast, suddenly dropped its timidity about reorganization and began proposing to consolidate, relocate and corporatize programs and agencies. Meanwhile, several congressional proposals to eliminate departments, agencies and bureaus, and to terminate, consolidate, and relocate programs, have provided a new agenda for broad-scale reorganization.

We strongly urge that all of these proposals for reorganization be considered in the broader context of comprehensive restructuring of government, including consideration of the roles of state and local government and the private sector. This doesn't mean that everything needs to be changed at once. But it does mean that proposed actions need to be assessed in relation to each other and in the context of a broad framework for what we want government as a whole to look like and to do in the future. Actions need to be taken in combination so that all will succeed, and their costs and other impacts will be carefully considered.

In short, Mr. Chairman, you are correct in viewing the Committee's role as seeing the big picture. Proposals to reorganize departments, agencies, programs, and functions of the executive branch should be assessed by criteria that are compatible with the broader goal of more comprehensive restructuring.

2. *The central question for any proposed reorganization (or restructuring) should be: what is the purpose?*

Reasons for reorganizing the executive branch generally fall into five categories:

Mission. Reorganization is required to achieve or accommodate a change in the mission of a program, agency, or department.

Effectiveness. Reorganization will help accomplish the mission by improving policy integration or program coordination. The Hoover Commission argued that related programs should be located "cheek by jowl" with one another if they are to function effectively.

Cost. Reorganization is required to reduce cost. "Economy and efficiency" has been a common purpose of virtually every federal reorganization in this century. Today, reorganization is driven largely by the desire to cut costs in order to reduce the budget deficit. Some propose reorganization—especially of regulatory agencies—in order to reduce costs imposed on the private sector by federal laws and regulations.

Values. Reorganization is required to advance important societal values, such as ethical behavior by public officials, fairness and honesty, or equal opportunity. Reorganization is often justified to promote long-term organizational capability, such as resilience, adaptability, and institutional memory.

Political objectives. Reorganization can help achieve specific political objectives, such as reducing the size and scope of government; shifting power between the President and Congress, or among interest groups; increasing accountability; elevating or diminishing the symbolic importance of issues and policies, or otherwise gaining public acceptance; or serving a specific need.

Clarity of purpose is required if only to assure that a proposed reorganization is likely to accomplish the intended result. For example, President Reagan proposed to eliminate the Department of Energy in order to save money. But he did not recommend terminating the department's programs, only shifting them to other departments. When cost analysis projected the reorganization would actually cost more than it saved, the proposal was dropped. Indeed, there is little evidence that reorganization, *per se*, saves money.

Balance of purpose is also important to assure that one purpose does not unduly skew a reorganization at the expense of other legitimate purposes. For example, the driving force for reorganization at the moment is the desire to balance the budget. But as the Committee knows, the federal government's fiscal problems are merely one dimension of the public's dissatisfaction with government. People are also disturbed about government's inability to meet their expectations in carrying out important public responsibilities, and they are also concerned about government intruding into their lives.

Even if Congress decided to eliminate a department and its programs, doing so may not be so simple. There are essentially two instruments for terminating programs. One is to repeal the laws that created them, which can be a difficult and time-consuming endeavor. The other is to not fund them. But this raises problems if the laws that created them remain on the books. For example, if Congress simply refused to fund regulatory agencies but did not repeal or modify the laws they were intended to regulate, the private sector would still have to comply with those laws without regulatory interpretation; the consequence could be an increase in litigation and involvement by the courts.

We urge that the primary test of purpose for any proposed reorganization or restructuring be performance: appropriate missions effectively achieved at the lowest possible cost. This is the overriding lesson that has emerged from nearly two decades of restructuring in the private sector and by other governments.

3. *The federal government should learn from the mistakes and successes of the private sector and other governments and leap-frog to the stage of restructuring that focuses on performance.*

The federal government is not alone in facing the need for fundamental restructuring. Similar economic and technological forces have been compelling public and private institutions everywhere—in the United States and abroad—to fundamentally rethink their purposes, organizational structures, and modes of operation. Consequently, the federal government could learn from the experiences of these other institutions so as to avoid their mistakes and capitalize on their successes.

By and large, restructuring has tended to follow a common sequence of responses.

First, when confronted with serious problems, most organizations simply deny they exist or presume that they will soon go away.

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

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

One consequence is that organizations end up with a smaller version of what did not work before. Alternatively, they may be left with something worse: a smaller organization minus some of the principal assets that permitted the larger organization to function even at sub-par performance. To make matters worse, many of the remaining employees are left angry, uncertain, mistrustful, depressed, and overworked, all of which add up to a demoralized workforce expected to take on even greater burdens. If employees do not rise to the occasion, organizations in these circumstances tend to search for the silver bullet—usually the latest management fad—that will solve their problem.

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

The emphasis on performance in no way ends the concern with cost or pressures to downsize. But by focusing on what should be done—identifying core purposes and

missions and strengthening core competencies—organizations have been able to cut costs by:

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

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

Where is the federal government in this sequence? Few people any longer doubt that there is a problem. But many of the actions taken to date are incremental, little more than "patching." The picture is mixed, because the federal government is a vast and varied institution. Some federal agencies have gone through substantial restructurings that reduced costs and improved performance. The military, for example, both downsized and improved its ability to perform in such combat missions as Desert Storm. Examples can be found in civilian agencies as well. Indeed, at a time when the public's confidence in government has reached all-time lows, we should take care to avoid portraying the whole federal government as inept and unable to carry out important functions, many of which, in fact, are competently performed.

Taken as a whole, however, the federal government has yet to reach the fourth stage of fundamentally rethinking its purposes. Phase II of the National Performance Review appears to be moving in that direction by asking what government should do as well as how it should do it. And the 104th Congress clearly is asking fundamental questions about the role of government.

The danger is that in its frustration with incremental change and desire to respond to the public demand for action, the federal government will get stuck in stage three—shrinking the current structure and amputation without diagnosis—even as it struggles to move to stage four: a focus on performance.

4. Successful restructuring requires a framework, or at least a robust set of principles, to give coherence to a wide range of complex actions.

An appendix to this testimony provides a framework for the Committee's consideration.

For any proposed reorganization, the framework would pose four basic questions: First, what is the public purpose to be achieved?

Second, what institutions other than government—including business, nonprofit organizations, and civil society—could achieve that public purpose? Could a current government activity therefore be privatized, meaning responsibility for it would be turned over to the private sector (in contrast to "contracting" where government purchases services from the private sector to carry out a function for which it retains ultimate responsibility)?

Third, to the extent there is a legitimate government role in achieving this public purpose, could that role best be played by state or local government? If so, how could the current federal responsibility be devolved to states and localities? Should full responsibility for entire functions such as welfare and transportation be defined as the responsibility of one or another level of government? Or should the federal government retain certain responsibilities, such as setting broad goals or standards, providing funding, generating knowledge and information, and assessing results? By what means can the federal government best carry out such responsibilities, for example, by performance-based block grants, performance partnerships, or mechanisms such as the "Oregon Option" in which federal, state, and local governments work collaboratively—among themselves and with the private sector—to achieve specified policy outcomes?

Fourth, where there is a legitimate federal role, which organizational options best suit that role? Options range across the spectrum from classic bureaus in executive departments, to various forms of independent agencies, government corporations, foundations and institutes, and government-sponsored enterprises.

Criteria are available by which to assess the various proposals to abolish cabinet departments. In 1988 this Committee asked the Academy to assess whether the Veterans Administration should be elevated to a cabinet department. Our panel developed criteria for making this determination, including whether cabinet status would:

- Serve a broad national goal or purpose not exclusively identified with a single class, occupation discipline, region or sector of society.
- Improve the effectiveness of service delivery to constituents, beneficiaries or other customers.
- Help recruit and retain better qualified leadership within the agency.
- Facilitate more uniform achievement of broad, cross-cutting national policy goals.
- Produce a beneficial or detrimental effect on oversight and accountability to the President and Congress.

Although our panel concluded that the VA did not meet many of its criteria, Congress decided to establish the department. These criteria, with modest changes, could be applied to every existing cabinet department to see whether it should continue to exist. (It might be useful to reassess whether the Department of Veterans Affairs itself has met the criteria in practice) If not, the functions would be reallocated to other departments, devolved to other levels of government, or turned over to the private business or non-profit sectors.

In contrast to the criteria for determining cabinet status, the criteria for determining which of the other organizational options should be employed are less clear. Numerous factors need to be considered, including: specificity of mission (and the extent to which it is an inherently governmental function), measurability of results, ability to generate revenue through fees or sales, and the relative advantages of providing greater flexibility in budgeting, finance, personnel systems, procurement, and contracting. Academy Fellow Harold Seidman suggests the following criteria for assessing the appropriateness of different organizational designs: status, public acceptance, access to decision makers in the executive branch and Congress; competition for financial and personnel resources; operating and financial flexibility; distribution of power among the President, Congress, agency and outside constituencies; and public accountability.

Several foreign governments which have restructured in recent years—including, most prominently the United Kingdom and New Zealand—have moved in the direction of creating relatively independent operating agencies, with promising results. Such agencies typically are assigned focused missions and headed by professional executives who negotiate performance agreements with their ministries (equivalent to our cabinet departments) specifying targeted objectives and indicators in exchange for appropriations. The executives are given wide latitude to manage their agencies (including freedom from most central controls on personnel, procurement, and processes), and held accountable for achieving specified performance targets regularly reported in performance reports.

These and other overseas experiences warrant closer attention. But their immediate importance for our consideration here is that the federal government should give primary attention to the organizational design of its principal operating units, which in most cases are agencies below the departmental level or completely outside departments, and avoid becoming overly preoccupied with whether or not given departments should continue to exist.

Alan Dean will address these issues in greater detail in his accompanying testimony on behalf of the Academy.

5. Any reorganization should account for the numerous initiatives already underway to restructure the federal government or otherwise improve its performance.

Reform of the federal government has been gathering steam in recent years through a variety of initiatives of both Congress and the President.

Numerous government-wide efforts are underway. As noted above, Phase II of the NPR entails a wide-ranging examination of potentially significant program and organizational changes. Phase II is also accelerating implementation of Phase I recommendations for systems changes which have important implications for organizational structure. Moreover, Phase II is moving beyond the how of government to ask what government should or should not do, with even greater implications for the organization of departments and agencies and the location of programs.

Other government-wide management reforms still in the process of implementation include the Government Performance and Results Act (GPRA), Chief Financial Officers Act (CFO), Paperwork Reduction Act, Financial Managers Financial Integrity Act (FMFIA), Government Management Reform Act (GMRA), the Federal Acquisition Streamlining Act (FASA), and the establishment of performance agreements, "re-invention laboratories" and "customer service standards" in the Executive branch. Questions are being raised about the appropriate role of the inspectors general (IG). And the administration has promised to propose a far-reaching Civil Service reform bill in the near future.

In addition to the government-wide reform efforts, each agency is also undertaking its own restructuring initiatives. For example, the Department of Defense has undertaken its own Defense Performance Review in conjunction with the NPR, and also has the Base Realignment and Closing Commission (BRAC), the Commission on the Service Roles and Responsibilities, CIM/Enterprise Integration, a commission conducting a review of intelligence agencies, and ongoing work to implement the Goldwater-Nichols Defense Reorganization Act and revise its planning, programming, and budgeting system (PPBS). Similar examples could be cited for other departments and agencies.

On top of both the government-wide and agency-specific initiatives, many managers are attempting to implement such management techniques as total quality management, business process reengineering, strategic planning, benchmarking, information resources management, and activity based management.

A serious danger at this point, Mr. Chairman, is that these various efforts will conflict or otherwise overload the circuits. Not all of these initiatives are compatible with one another. Even where they are, failure to integrate their development and implementation could overwhelm the people and systems of government, thus leading to declines in performance, managerial breakdown, or fraud and scandal. This problem will only get worse if a new round of reorganization proposals is added without consideration of how these various pieces fit together.

In that regard, the Government Performance and Results Act (GPRA), which you authored, Mr. Chairman, is potentially the most significant government-wide management reform initiative of recent years. GPRA, with the co-sponsorship of Senator Glenn and the unanimous approval of this Committee, has enjoyed bi-partisan support in both houses of Congress and by the President. By focusing on performance, it could provide the integrating mechanism that is so critically needed to bring cohesion to the numerous related reform efforts.

Some 71 GPRA pilot programs are underway, and they are providing valuable lessons on how the act might be effectively implemented throughout the federal government. NAPA has documented the lessons learned from these pilot programs in a report entitled *Toward Useful Performance Measurement*. The GPRA holds promise for being an integrative mechanism to tie together the other management reform efforts and focus them on the key issue of improving performance.

6. *The framework or principles of restructuring should be adapted to specific organizations, policy areas, and circumstances.*

No single framework or set of principles can be mechanically applied across the wide and varied range of government entities. Different circumstances require tailored approaches.

The following examples from recent Academy projects commissioned by the Congress illustrate the importance of comprehensively examining issues of mission, structure, system, process, and resources in specific organizations and policy systems:

Federal Emergency Management Agency (FEMA). An Academy panel considered a wide range of organizational options for FEMA, from eliminating the agency to transferring its functions to the Department of Defense. The panel concluded in *Coping with Catastrophe* that a small independent agency could coordinate the federal response to major natural disasters, as well as integrate other emergency management functions, but only if the White House and Congress took significant steps to make it a viable institution. FEMA had been ill-served by congressional and White House neglect, a fragmented statutory charter, irregular funding, and the uneven quality of its political executives appointed by past presidents.

Department of Housing and Urban Development (HUD). Last year in *Renewing HUD: A Long-term Agenda for Effective Performance*, a NAPA panel recommended a radical program consolidation and restructuring of HUD, including converting the Federal Housing Administration into a government corporation. It further recommended that if HUD's performance did not meet satisfactory standards within five years, the department should be abolished and its remaining programs and responsibilities assigned to other agencies.

Environmental Protection Agency (EPA). In a report released this spring, *Setting Priorities, Getting Results*, a NAPA panel recommended substantial shifts of responsibility for environmental protection to the private sector and to state and local government. It also urged that EPA get its own house in order by: (1) establishing specific environmental goals and developing strategies to attain them, (2) using comparative risk analysis to inform the selection of priorities and the development of specific program strategies, (3) using the budget process

to allocate resources to the agency's priorities, and (4) establishing accountability by setting and tracking benchmarks and evaluating performance.

General Accounting Office (GAO). Two years ago, this Committee asked the Academy to examine GAO's roles, mission and operations. Our panel's August 1994 report said GAO's most important assets are its objectivity and impartial fact-finding analyses that have given its reports and testimony a "special standing in discussions and debates on government performance." The panel did not find the need for major organizational changes. But it did conclude that GAO and Congress should give greater attention to the scope of work GAO does, how it uses its resources, the quality of its work products, the objectivity of its findings and conclusions, and the fairness of their presentation and release.

Global Positioning System (GPS). Two departments—defense and transportation—are jointly responsible for the governance and management of this satellite-based navigation system which provides highly accurate timing and positioning data to military and civilian users the world over. In a joint study to be released shortly, our Academy addressed the governance and management issues regarding GPS while the National Academy of Sciences addressed the technical issues. A wide range of organizational options—from privatization to internationalization—were tested against a series of critical national security, economic competitiveness, and personal safety factors.

The key point here, Mr. Chairman, is that each of these congressionally directed reviews required careful consideration of a broad range of complex institutional questions applied to specific organizations and policy systems, each with its own substantive questions and institutional peculiarities. In each instance, organizational structure is only one of numerous factors that had to be considered together if serious proposals for reform and restructuring were to be made. These are not simple issues and will rarely yield to simple solutions.

7. The federal government needs a strategy for restructuring, which includes but is not limited to reorganization.

If the federal government is to integrate the wide-ranging initiatives underway and new ones under consideration, it will need a coherent strategy. This is especially important if it is to leap-frog the conventional sequence of restructuring, avoiding the mistakes and pitfalls and moving directly into a serious focus on performance.

In the short run, the Committee will need to address specific proposals for reorganization coming from both the administration and the various committees and members of Congress. The immediate problem is that many of these proposals are molded by a budget process that focusses on the allocation of inputs (dollars, people, supplies, equipment) rather than on the accomplishment of results (mission, outputs, outcomes, and impacts). Unless specific action is taken to shift the emphasis toward performance, the resource-driven nature of many of the reform proposals will reinforce this orientation toward inputs.

The Senate Budget Committee is aware of this problem, but has had to focus on the primary task of reducing the budget deficit. OMB is also aware of the problem and has begun to request more performance data from agencies as part of the annual budget process. But OMB is also driven principally by the input-driven budget process.

The Committee could play an immensely important role in driving the processes of Congress and the Executive branch to focus on performance as they make a wide range of decisions regarding reorganization, restructuring, and funding.

Here again, the GPRA could play an important role. It requires OMB to submit government-wide performance plans as part of the fiscal 1999 budget, and to report to Congress in 2001 on the pilot testing of performance budgeting. The idea of a "performance budget" per se is not new. The Hoover Commission suggested that the federal government adopt such a budget and several state and local governments have adopted performance budgets in recent years. The point, however, is not just to adopt a performance budget, but to use the budget process to reorient government thinking, decision-making, management—the entire culture of government—toward performance.

This Committee also might consider how the driving force of cost-cutting could be leveraged to include a concern for defining and achieving performance goals. For example:

- While considering which agencies, programs, or activities pursue inappropriate or unimportant federal missions and should therefore be terminated or reorganized, identify those that are pursuing legitimate federal missions and determine ways in which they can be strengthened, whether through better organization or more effective systems, processes, and personnel.

- While determining which responsibilities should be shifted elsewhere—to the private sector, individuals and volunteer organizations, or other levels of government—identify those responsibilities that are clearly federal functions and ensure that they are not only maintained but performed effectively.
- While considering ways to increase the productivity of programs and activities—by doing more with fewer resources, by doing the same with fewer resources, or by doing less with even fewer resources—consider how to further improve the most productive programs and activities by strengthening their capacities and helping them to increase their productivity all the more.
- Although increasing revenues through a tax increase may be off the table, consider such options as increasing the sale of government goods and services, or imposing service fees which better reflect benefits that derive only to the customer or beneficiary and not the public as a whole.

The Committee can also encourage authorizing and appropriations committees to: (1) specify clearer goals for federal programs; (2) insist that federal agencies provide good performance data to support their funding requests (the performance information OMB is now requesting from agencies could be of immediate use to congressional committees); (3) provide the resources needed to measure and report on performance; and (4) support stronger linkages among budgeting, strategic planning, and performance measurement.

The specific steps required to comply with stringent budget requirements should be tied to a long-term strategy for making serious changes in the missions, goals, structures, and performance capacities of the federal government. The government reform commission you have called for, Mr. Chairman, may be one way to address some of these issues and help to assure that the actions that will be taken over the coming months and years are all working toward the creation of a government capable of effective and efficient performance of appropriate federal missions.

In 1988, the Academy's *Executive Presidency* report recommended that the President propose and Congress create a bipartisan commission "to study and recommend improvements in the organization and management of government which would streamline its operations, preserve public accountability, and make government more manageable by both the President and Congress." President Bush was provided an opportunity by the law creating the Department of Veterans Affairs to establish such a commission early in his administration, but he declined.

A successful strategy will also need to determine how to involve ordinary citizens in deciding what they want from government and how they believe it should be provided and paid for. Ultimately, refocusing the federal government on performance and results requires a vehicle for linking federal programs and activities with a broader vision of the public purpose and the numerous government and non-government organizations with a stake in achieving it.

Some state and local governments have experimented with mechanisms to engage the public in defining public purposes. For example, in 1988 Oregonians captured their collective aspirations for a better future in a highly participatory strategic planning process. The following year, the Oregon legislature enacted legislation creating the Oregon Progress Board—a bi-partisan committee chaired by the governor. The progress board was charged with the task of turning the plans into a set of measurable indicators, "Oregon Benchmarks," by which Oregonians could assess their progress. Today, the state budget is driven by Oregon Benchmarks, the progress board is continuously monitoring progress on the benchmarks, and the state's many public, private and nonprofit organizations are working hard to achieve results.

Changing large institutions takes time. No major corporation has undergone fundamental change in less than six years, and most take longer than that. The federal government is far larger and more complex than any corporation, and will take a longer time to change. Consequently, a change strategy for federal reorganization and restructuring needs to be realistic.

8. *The federal government needs the capacity to design and implement plans for reorganization and restructuring.*

The federal government currently lacks the capacity required to implement effectively the extraordinary array of complex and often competing reform initiatives already underway. A new round of reorganization, downsizing, and other restructuring actions of the kind now under consideration by the Congress and the administration—with no serious attention to building the needed capacity—will surely exacerbate that problem.

The principal type of capacity needed is people with the right skills to operate with up-to-date systems. The National Performance Review's initial call for a reduction of 252,000 positions—increased by Congress to 272,900—was based on two im-

portant propositions. The first was that half the 700,000 federal positions estimated to be engaged in "overseeing" work (e.g. managers, supervisors, and specialists in personnel, procurement, budget, and audit) could be eliminated if up-to-date systems were put in place. The second proposition was that 100,000 new positions would be required to develop and operate those more modern systems. Consequently, 350,000 positions could be eliminated, but 100,000 new positions would need to be created and filled by new people with new skills (or retrained employees), with a net reduction of 252,000 positions.

For example, process reengineering has shown immense promise, often through the imaginative use of information technology, for radically cutting costs and improving performance, as documented in NAPA's 1994 report, *Reengineering for Results: Keys to Success from Government Experience*. (A summary of the report is available from the Learning Network and Internet World Wide Web of NAPA's Alliance for Redesigning Government). But if federal employees lack the skills required to apply reengineering techniques, this potential will be lost.

The problem is that the position reductions have begun, but in very few instances have the new systems been developed or the new employees and skills put into place. Consequently, throughout the government one finds fewer employees attempting to operate cumbersome old systems, while simultaneously designing and implementing new systems, but without the training or access to skills required to do either. What's more, there is evidence that some of the most experienced and capable people are leaving government (in some cases enticed by buyouts) just at the time when their special knowledge and skill is required to deal with the problems of transition to new systems.

Businesses going through restructuring regularly have discovered that they need to invest heavily in providing new skills to employees. Top-rated companies commonly invest as much as 10 percent of payroll costs in training and development. By contrast, the federal government spends less than 1 percent of payroll costs for these purposes.

The problem for the federal government is all the greater since career professionals no longer fill many of the higher policy and management positions. High-level professionals have been particularly important in the restructuring of other national governments. The U.S. federal government is the only major industrial government where political appointees—currently some 3,000—are ingrained so deeply into public agencies. While many of these are highly capable people, they do not necessarily possess the management skills required to manage or restructure large, complex, public operations. Even in those cases where top appointees bring experience and talents from the private sector that can be invaluable in helping to modernize government, it takes time for them to learn the new situation and the differences between government and business.

Should there be a change in Administration in 1996, many of the talented appointees who have been deeply engaged in restructuring the Executive branch will suddenly be gone, along with many experienced career executives, just at a point when the combined restructuring initiatives from the Congress and the Administration are likely to be at fever pitch. This could leave the next Administration, and the federal government, with an even more serious management problem.

Capacity is also required at the highest levels of government to design and guide the implementation of change. Top level responsibility for management in the Executive branch currently is shared by the various components of the Executive Office of the President, including NPR staff under the Vice President, and the Office of Management and Budget (OMB). Major capacity questions confronting top leadership include the design and implementation of individual systems, processes, organizations, instruments, and training programs, and the integration of these numerous initiatives throughout the government.

Congress also needs to build its capacity to understand better the operations of the Executive branch, and to help design and oversee the complex organizational changes that are underway, and can be expected in the future. In the previously mentioned studies for Congress of HUD, EPA, and FEMA, Academy panels concluded that one of the principal obstacles to effective management in the executive branch was lack of clear direction and reasonable and consistent oversight from Congress.

Support and cooperation will be needed between both houses of Congress and between Congress and the Executive Branch. The NAPA report, *Beyond Distrust: Building Bridges Between the Congress and Executive*, made several suggestions that could be helpful in this regard, such as the creation of a joint legislative-executive conference, staff-to-staff working groups to facilitate interbranch communication, and performance-based citizen/customer-oriented pilot projects with the involvement of both executive agencies and relevant congressional committees.

CONCLUSION

The Congress will confront a wide range of proposals to reorganize and otherwise restructure the federal government over the coming weeks and months. The ultimate test for any of these proposals should be whether they produce results that benefit the American people. The public's frustration with government focuses principally on concerns about the cost of government, the chronic budget deficit, and the rising national debt. But their frustration also arises out of unmet expectations regarding government performance whether it is government doing too much, too little, or not doing it well enough. Most people want smart and effective government—appropriate goals approached with common sense and skill—as well as efficient and less costly government.

The good news is that there need not be a tradeoff among these goals. In fact, in the long run it may be that only through effective government, focused on appropriate missions, will we also achieve efficient and less costly government. A federal government that performs appropriate and clearly defined tasks effectively will also be a federal government that saves money, both by being more efficient in what it should be doing, and by terminating what it should not be doing.

The key question is whether the federal government can leap-frog the conventional sequence of institutional restructuring and focus immediately and directly on performance.

APPENDIX TO STATEMENT BY R. SCOTT FOSLER

RETHINKING THE FUNDAMENTALS OF GOVERNMENT

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

Purpose and Mission

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

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

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

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

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

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

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

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

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

- Creating the framework for a healthy civil society and a competitive and productive market economy. Are there more cost-effective approaches to regulation, such as the market mechanisms discussed in the Academy study, *The Environment Goes to Market*?
- Creating a more productive federalism in policy areas that require intergovernmental participation by limiting unfunded mandates; making more effective use of block grants; and clearly identifying and carrying out such specific responsibilities as planning, setting goals and standards, financing, information gathering, benchmarking, or assessing activities that are principally state and local operating responsibilities.
- Promoting cooperative interaction among the sectors and levels of government through the use of public-private partnerships and collaborative problem-solving.
- Providing those direct services that the federal government can do most effectively and efficiently, such as Social Security and the operation of national parks.

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

Organizational Design

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

- Executive Office of the President, which includes the White House, such central management agencies as the Office of Management and Budget, as well as numerous other types of organizations;
- Executive departments, which typically are an agglomeration of operating units that serve a broad federal mission. In an evaluation of the proposed elevation of the Veterans Administration to a cabinet department, an Academy panel offered a set of generic criteria for helping to determine whether any agency should become, or remain, a cabinet department:
- Agencies, which are subject to generally applicable laws and regulations governing budgets, financing, personnel systems, procurement, and contracting, and supported almost entirely by appropriations. Even this most traditional form of government organization can be designed in a wide variety of ways tailored to specific missions, and can employ an array of tools, such as franchises, vouchers, contracting out, regulation, and internal competition.
- Independent agencies, established outside of executive departments.
- Wholly-owned government enterprises, such as the Bonneville Power Administration (BPA) and the U. S. Postal Service, and government corporations such as the Government National Mortgage Corporation (GNMA), Federal Financing Bank (FFB), St. Lawrence Seaway Development Corporation (SLSDC), Pension Benefit Guarantee Corporation (PBGC), Federal Prison Industries (FPI), Federal Deposit Insurance Corporation (FDIC), Resolution Trust Corporation (RTC), U.S. Enrichment Corporation (USEC), and the Tennessee Valley Authority (TVA), which generate revenue and can benefit from the discipline of a well-designed corporate structure even if they receive a subsidy. Academy panels have recommended the corporatization of several federal agencies, or parts of agencies, such as the BPA, the Naval Petroleum Reserves (NPR), the Federal Aviation Administration (FAA), and the Federal Housing Administration (FHA).

- Government-sponsored enterprises, such as Fannie Mae (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), and Student Loan Marketing Association (SLMA), which are privately owned and for-profit, and enjoy benefits not accorded to other businesses in exchange for the pursuit of a specific public purpose.
- Other types of federal organizations including foundations, institutes, regulatory agencies, nonprofit corporations, and intergovernmental bodies.

Performance Capacities

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

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

- clearly define missions and goals, derived from public law, placed in the context of long-term strategic thinking, and refined according to such considerations as customer service;
- specify the intended results and measures by which performance will be assessed;
- recruit and develop capable people, with the appropriate leadership, managerial, technical, and operational skills;
- develop effective and integrated management systems, including strategic planning, budgeting, financial management, information management and technology, human resources management, procurement, program management, and auditing;
- give managers the resources, latitude, and incentives to manage;
- benchmark performance with similar operations, including those of the best—or better—performers;
- build incentives and culture for continuous improvement by involving those who do the work, customers, and suppliers in the change process, and by tolerating reasonable mistakes and risk-taking;
- regularly report results to responsible officials; and
- hold people accountable for results; and reward them according to their performance with compensation, recognition, promotions, redeployment, demotions and terminations, as appropriate.

Based on these criteria, many federal organizations are seriously deficient in performance capacity. In most cases, the problem is not that they are unable to develop such capacities, but that they have not been given the direction, incentive, resources, or latitude to do so.

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

Screening Current Programs and Activities

The foregoing questions provide a framework for subjecting virtually every current federal program and activity to the central question which the Budget Committee posed to the Senate's authorizing committees: If this program or activity were not in place today, would there be justification for starting it? Programs can then be categorized according to a related set of criteria.

1. Keep and strengthen those programs which fit a federal mission and work, or can be made to work, consolidating programs and eliminating duplication where appropriate, and reengineering core processes.
2. Terminate those programs which do not fit a federal mission and do not work, or cannot be made to work, or do not work at reasonable cost.
3. Privatize or devolve those programs which work and have value but do not fit a federal mission.
4. Give further consideration to those programs which do not fall clearly into one of the first three categories.

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

Other cases requiring further consideration include those problems that require some kind of federal response, but about which too little is known to determine exactly what to do. For these, it may make sense to experiment to find out what works and what does not.

PREPARED STATEMENT OF ALAN L. DEAN

Mr. Chairman and Members of the Committee:

My name is Alan L. Dean. I am a former chairman of the Board of Trustees of the National Academy of Public Administration and, currently, a Senior Fellow.

I am pleased to be invited to appear before this Committee to discuss issues relating to the reorganization of the Executive Branch. The comments which I am making on this important subject are in large measure based on experience gained as assistant to the vice chairman of the first Hoover Commission on the Organization of the Executive Branch of the Government (Hoover Commission), as the coordinator of President Nixon's effort to replace seven executive departments with four more rationally organized major-purpose departments, as a staff member of the Bureau of the Budget concerned with government organization, as deputy assistant director for management of OMB, and as the first assistant secretary for administration of the Department of Transportation.

Some of the views which I am presenting today are set forth in greater detail in a research paper which I prepared in 1989 at the request of NAPA's Standing Panel on Executive Organization and Management. It is titled "The Management of Executive Departments," and I have with me a copy for the information of the Committee.

My remarks today will address the questions set forth in the chairman's letter to invited witnesses; namely ". . . when should a function be housed within a cabinet department, when should it be in a separate agency, and when should it be part of some type of government corporation."

Reorganizing the Executive Departments

The Constitution of the United States contemplated that executive departments would be created to carry out the functions of the new government, but it wisely left to the Congress and the President the tasks of determining what departments would be created, what responsibilities would be assigned them and how they would be organized and managed.

Since 1789, the executive departments have been charged with the administration of the bulk of federal programs, and the cabinet secretaries have been the most prestigious officials in the executive branch other than the President. Although numerous independent agencies have been established, for the most part they are charged with limited missions. Few even approach the executive departments in influence, prestige or scope of functions.

Unfortunately, from the standpoint of effective administration, the executive departments as they now exist vary widely in size, importance, and traditions of management. Having been created at different times and having developed different approaches to internal administration, today's departments raise numerous issues with respect to their roles, relationships and effectiveness. Consequently, improving the structure and management of the executive departments has become one of the most important challenges now facing the President and Congress.

Another factor which warrants attention is the increase in the number of departments from the original four to fourteen. Several current departments came into existence in response to crises or political considerations which may no longer be relevant. For this reason there is a need for a careful look at what the government now does, and how programs of ongoing importance can best be grouped within departments.

The most useful comprehensive efforts to address broadly issues of departmental organization and management have been those of the first Hoover Commission (1947-1949), the Advisory Council on Executive Organization, chaired by Roy Ash (1969-1971), and President Nixon's departmental reorganization program (1971-1973). More recently, a National Academy of Public Administration panel, in its report *Evaluation of Proposals to Establish A Department of Veterans Affairs* (1988), set forth criteria for determining whether or not an agency warranted elevation to cabinet status.

All the studies which I have cited concluded that the executive departments should exist to pursue the "major purposes" of the federal government. This approach contemplates that a department is warranted when the programs relating to some definable purpose of the government become so numerous, so large and so

complex that an official of secretarial rank with membership in the Cabinet and immediate access to the President is needed to bring about effective leadership, oversight and coordination.

Several of the current executive departments clearly qualify as major purpose departments. These include State, Defense, Treasury, Justice and Transportation. Others either fail the test or do not contain the scope of functions needed for them to be fully effective in pursuing their core missions. These include Commerce, Education, Energy, Health and Human Services, Housing and Urban Development, Interior, Labor, and Veterans Affairs. I am not implying that all these departments should be abolished. They should, however, either be given the additional responsibilities needed for them to pursue successfully some major purpose or they should be combined with other existing departments or agencies. Any effort to reconfigure these executive departments must, of course, take into account the impact that current efforts to balance the budget and to reduce the role of the Federal government will have on existing programs.

There are historical reasons why so many of the current departments lack the scope or capacity to make an optimum contribution to the effective administration of federal programs. Several departments were created primarily because some organized part of the population sought representation in the Cabinet. This led in 1913 to the breakup of the short-lived Department of Commerce and Labor, because organized labor insisted that it "be given a voice in the Cabinet." Similarly the Department of Education came into existence at the urging of the National Education Association—an action which effectively thwarted the efforts to broaden the Department of Health, Education and Welfare into a genuine Department of Human Resources. Likewise, the Department of Veterans Affairs was sought by the veterans organizations to secure Cabinet status, in spite of the fact that a National Academy study commissioned by this Committee concluded that there was ". . . little evidence that the vital mission of providing for the present and future needs of our veterans would be materially improved by elevating the Veterans Administration to a Cabinet department."

Executive departments set up to serve only a segment of the public or to represent an organized group in our society are said to be organized on a "clientele" basis, and this approach has been rejected by most recent efforts to set criteria for departmental status.

Another approach occasionally advanced as the justification for establishing executive departments is the grouping of activities by professional area rather than the end purposes served. For years, proposals have been made to create a Department of Public Works or a Department of Science. An effort in the 1940s to organize on this basis by creating a Federal Works Agency proved unworkable. It just made no sense to put the then Bureau of Public Roads and the provision of public buildings in the same agency simply because construction was involved.

President Nixon sought to assure that all the domestic executive departments were organized by major purpose. This was to be done by creating departments for economic affairs, human resources, natural resources and community development. Seven of the departments existing in 1971 were to be abolished. This effort was undertaken to improve the way in which existing programs were grouped and administered. It was not designed to downsize the federal government.

An example of a department which could readily be converted into an effective major purpose agency is the Department of the Interior. Most recent Presidents, including Presidents Truman, Nixon and Carter, have urged that Interior be replaced by a Department of Natural Resources with a broader and more cohesive mission. Such a reform would place under one secretary land management, water resources, forestry, fossil fuel, and other conservation related programs now scattered among several departments. It simply makes no sense to have the Bureau of Land Management in Interior and the Forest Service in Agriculture.

Placing Functions in Independent Agencies

Beginning with the Post Office in 1789 (which did not become an executive department until 1872), there have been agencies carrying out programs independent of the executive departments. There are many such entities today, and they have come into existence for a bewildering number of reasons.

Some of these independent or separate agencies are clearly inappropriate for inclusion in an executive department because they have roles which cut across the executive branch. Examples are the Office of Management and Budget, the Office of Personnel Management, and the General Services Administration.

Others were created to carry out what were described as quasi-legislative or quasi-judicial functions. These are often headed by bi-partisan commissions. Examples are the Securities and Exchange Commission, the Federal Trade Commission,

the Federal Communications Commission, the Interstate Commerce Commission, and the Consumer Product Safety Commission. The case for such agencies being separate from the departments is a dubious one. Departments such as Agriculture, Transportation, and Health and Human Services carry on important regulatory functions in units headed by single administrators. When Congress abolished the Civil Aeronautics Board in 1984, most residual regulatory functions were transferred to the Department of Transportation. It now appears likely that the Interstate Commerce Commission (the oldest of the regulatory commissions) will also disappear.

The Committee could productively ask how many of the remaining independent regulatory commissions are really needed.

The largest number of separate agencies are independent because no existing department is a suitable location or because influential groups desire that they be separate. Several major agencies which did not lend themselves for programmatic reasons to inclusion in a current executive department are the U.S. Postal Service, the National Aeronautics and Space Administration, and the Environmental Protection Agency. Occasionally, such agencies attain the size and importance to qualify as executive departments. The present departments of Justice, Agriculture, Housing and Urban Development, Health and Human Services, and Veterans Affairs were preceded by independent agencies. In recent years, bills have been introduced to accord the EPA departmental status.

Many other small independent agencies exist because no one has gotten around to placing them in an executive department or because supportive groups have successfully kept them separate. In this category fall the Small Business Administration, the Railroad Retirement Board, the National Archives and Records Administration, and the Postal Rate Commission.

In general, the exclusion or removal of a program or activity from the departmental structure should take place only for compelling reasons. Small independent agencies do not really "report to the President." They tend either to be dominated by interest groups or to be at the mercy of examiners in the Office of Management and Budget.

Placing a Function in a Government Corporation

Congress, in enacting the Government Corporation Control Act of 1945, and President Truman, in his 1948 fiscal year budget message, recognized that certain revenue-producing activities of the federal government could be more effective and responsive if they were given some of the flexibility in administrative and fiscal matters enjoyed by corporations in the private sector.

The characteristics of a wholly-owned government corporation are:

- It is self-sustaining (or potentially self-sustaining) from revenues received from the sale of products or the payment of fees for services rendered users.
- Since users, rather than the general taxpayers are paying for the service, the entity must be able to respond promptly to those making the payments. This requires that revenues be made immediately available to cover costs through a revolving fund mechanism.
- The entity normally engages in numerous business-type transactions with the public.
- The function should be chartered by statute as a separate legal entity which can sue and be sued in its own name.

The nature of the commercial activity may also require that it have more flexibility in contracting, personnel practices and fee setting than is normally granted traditional appropriations-financed functions.

From 1945 until about 1969, the above criteria were systematically applied to the government's business-type, revenue-producing programs. Most corporations were rechartered in conformity with the Government Corporation Control Act. Some were liquidated as unnecessary.

Government corporations established in recent years have been characterized by increasing inconsistency. Non-revenue producing programs such as those concerned with synthetic fuels, legal services and railroad reorganization were established as corporations in spite of their being primarily supported by appropriated funds. At the same time, programs such as those of the Naval Petroleum and Oil Shale Reserves, the Bonneville Power Administration, the Federal Housing Administration, and the Patent and Trademark Office—all of which were self-supporting—were not given the status of government corporations and this failure has been costly to the government, both in added costs and impaired revenues.

This Committee now has an opportunity to develop and enact new legislation supplementing the existing Government Corporation Control Act. The new statute,

which could be described as the Government Enterprises Standards Act, could spell out the conditions under which a federal program or function should be incorporated or placed in an existing corporation. Such legislation would do much to end the current confusion and would be of great value both to executive branch agencies and to the committees of the Congress.

The National Academy has conducted numerous studies of revenue producing enterprises in recent years and would be pleased to render assistance in such an undertaking.

Looking to the Future

This Committee can be of great assistance by focusing attention on matters of government organization and by considering and advancing helpful legislation. However, the Congress cannot directly administer the executive branch. Only the President is the nation's constitutional chief executive. Unfortunately, the President now lacks the tools needed to develop and effectively implement needed reforms in the executive branch.

For many years, the Bureau of the Budget and its successor, the Office of Management and Budget, had strong divisions concerned with matters of organization and management as distinct from reviewing budgets. Recently, in the Chief Financial Officers Act, the Congress sought to strengthen the OMB's capacity to provide leadership in this area by creating the new post of deputy director for management.

The efforts to maintain an OMB capacity to help the President, the agencies and the Congress in improving the organization of the executive branch in a sustained and systematic way have, unfortunately, been unsuccessful. That capacity has steadily declined since 1973 and a recent reorganization of OMB has virtually eliminated what was left when President Clinton took office. This has led many of us who have held senior management positions in the Bureau of the Budget or the OMB to conclude that OMB has become, *de facto*, an "Office of Budget" and is unlikely ever to meet the government's needs with respect to reorganization and management improvement. We have urged the creation of a separate "Office of Federal Management" in the Executive Office of the President, under a director who could concentrate on administrative reform without the pressures of the budget process. The establishment of such an Office was recommended in 1983 by a National Academy of Public Administration panel chaired by Dwight Ink in a report titled *Revitalizing Federal Management*. A bill to carry out this recommendation was introduced by White House chief of staff Leon Panetta when he was a member of Congress.

Another action which Congress usefully could take is to revive the Chairman's proposal to create a new, Hoover-type commission to conduct a bi-partisan review of the organization of the executive branch and to develop consistent and well thought out recommendations for the next administration and the 105th Congress. The report would not be released until after the November 1996 elections and would be designed to help those elected to the presidency and Congress.

The great success of the first Hoover Commission suggests that a bi-partisan body can be effective if established by Congress and supported by the President.

I would be happy to respond to any questions from members of the Committee.

PREPARED STATEMENT OF PAUL C. LIGHT

Mr. Chairman, Senator Glenn, and other members of the Committee, it is an honor for me to return to the Governmental Affairs Committee today. I was proud to serve on the Committee's staff under chairman Glenn during the 100th Congress, and am delighted to be asked to contribute as you embark on this important set of hearings.

By way of background, I left the Committee staff in 1988 to join the University of Minnesota's Hubert H. Humphrey Institute of Public Affairs as Associate Dean. I am about to return to the East Coast to become director of the public policy program at the Pew Charitable Trusts in Philadelphia. The Trusts have made a substantial new commitment to strengthening government performance and civic life in this country, and I have been asked to help design that effort. Needless to say, however, my comments today are my own, and do not reflect the views of either the University of Minnesota or the Pew Charitable Trusts.

This hearing presents a remarkable challenge to scholars of public management, of course. Most scholars would rather ask what to do 20 years from now than what to do about executive branch reform today. Nevertheless, I will persevere today in giving at least some responses to the chairman's thoughtful questions about principles of governmental organizations and structure.

Before doing so, allow me to comment on the role this Committee must play in the current debate. Senate Governmental Affairs has long been a reservoir of both innovation and care in management reform and executive reorganization. It has authored many of the central management reforms of our era—Ethics in Government, Inspectors General, the Government Performance and Results Act, and, dare I suggest, the Presidential Transitions Effectiveness Act of 1988, a bill on which I worked in the 100th Congress. The Committee was working on mandate reform long before the rest of the nation rediscovered the Tenth Amendment, and has been struggling to bring Congress under the same laws that govern the rest of the nation for the better part of a decade.

In building this record of innovation, the Committee has always exercised care and deliberation. Having just completed a study of the 141 top management statutes passed over the past half century, I can attest that this Committee develops the most detailed legislative histories anywhere in Congress. The hearing records are detailed, and the questions tough. Therefore, I want to applaud the Chairman and Committee for launching this new reform effort with care. It is a signal to the rest of government, including the Presidency, that something serious is about to happen. Although we must not be so thoughtful that we lose this important opportunity for action, we must also take care to do no harm.

The Thickening of Government

Now, let me turn to the topic of today. As some of you know, I have just completed a rather extensive study of the changing structure of the executive hierarchy. Having coded endless stacks of government phone-books to reconstruct a half century of detailed federal organization charts, I hope I can shed some light on the risks and benefits of current proposals to eliminate and/or consolidate certain departments and agencies. These lessons are drawn from my book, *Thickening Government*, which was published earlier this year by the Brookings Institution and Governance Institute.

Let me start by offering four quick findings about the changing structure of government.

First, *there is a nearly inexorable tendency for the federal hierarchy to thicken.* As a term of art, thickening measures the distance between the top and bottom of a government hierarchy (height) and the growing number of occupants in each layer of the hierarchy (width). Height times width = thickness. It is safe to conclude that the federal government has never been thicker than today—there are more layers of management top to bottom, and more managers at each layer.

This thickening has both healthy and unhealthy causes. Part of the thickening comes from the changing mix of jobs in the federal workforce, some of which has been driven by the computer revolution. The ratio of managers to employees was bound to change as a result of the personal computer and faxes. Part comes from repeated pay freezes over the years. However tempting such freezes are for producing short-term budget savings, they tend to produce long-term thickening as managers use promotions as a method to pay competitive salaries.

It is also useful to note that thickening comes from the natural aging of government organizations. Just as human beings tend to thicken as they get older, so, too, do organizations. The vast cohort of baby boomers hired in the 1960s and 1970s is now reaching middle-age (indeed, the baby boomers are even now receiving their first invitations to join the American Association of Retired Persons). This aging has put pressure on the federal hierarchy to provide promotional opportunities, which may create unnecessary layers of management.

Second, *the thickening of government has changed the basic shape of the federal hierarchy.* In the 1950s, the federal bureaucracy looked like a relatively flat bureaucratic pyramid, with few senior executives, a somewhat larger number of middle managers, and a very large number of front-line employees.

By the 1970s, it was beginning to look like a circus tent, with a growing corps of senior political and career executives, a sizable "bulge" of middle managers and professionals, and a shrinking number of front-line employees.

Through the 1980s and 1990s, it was becoming a pentagonal shape, with even more political and career executives at the top, and almost equal numbers of many middle-level and front-line employees. In 1983, there was one employee at the middle for every 1.6 on the front-line. By 1992, the ratio was moving down toward one-to-one.

If current trends continue, the federal government may eventually resemble a circle, with very few employees at the bottom, hordes of managers, supervisors, and technical analysts of one kind or another at the middle, and a vast coterie of political and career executives at the top. The rest of the traditional bureaucratic pyramid will still exist, of course, not filled in by federal employees, but by those who

work for the increasing number of contractors, non-profits, and State and local agencies that deliver services once provided above.

Third, *the hierarchy tends to thicken under almost all conditions.* There are far too many suspects in the thickening of government to list here; suffice it to say that we are all guilty. There is no party of thickening (it occurs under Democrats and Republicans alike), nor any institution of thickening (presidents have done it, Congress has done it, the Courts have done it).

This is a particularly important finding as this Committee considers pending legislation to abolish one or more departments, for the research suggests that merely eliminating a department from the books does not necessarily assure that government will be thinner as a result. Like any fad diet, government may wake up months or years later much thicker, indeed.

Consider, as one example, the creation of the Department of Education in 1978. In theory, breaking Education out of the old Department of Health, Education, and Welfare should have had minimal effects on the superstructure of government. After all, Education was a tiny part of the much larger HEW. Nevertheless, compare the old HEW in 1976 against the new HHS and Education in 1980. Whereas the old HEW had but 15 assistant secretaries and 25 deputy assistant secretaries, the two new departments had 25 assistant secretaries and 68 deputy assistant secretaries just 4 years later. Splitting the two apart actually increased the space occupied by both.

Fourth, *departments have not done especially well when given the freedom to determine their own shape.* It is hard to stay on a diet when temptations are so great. Although there is much talk about decentralizing personnel authority these days, departments have long had nearly unchecked authority in position management. And it was through this freedom that many departments thickened dramatically.

This should not be news to this Committee. The General Accounting Office has long argued that federal position management is weak at best, absent at worst. The Office of Personnel Management has never had the staff to closely monitor the proliferation of layers within departments, and most certainly does not have that capability now.

At the same time, the Office of Management and Budget has almost completely dismantled its oversight capacity. Much as we can admire the effort to more closely coordinate management with budget by combining the two at the budget analyst level, fear that the net effect is to leave the federal government with little oversight capacity at all. As a result, no one knows whether the Gore span-of-control mandate, which is designed to increase the ratio of managers to employees from 1:7 to 1:15, is being faithfully executed by departments. Lacking such oversight, agencies may be simply "gaming" the initiative by relabelling management positions as something else.

I should note that there are at least two "victims" of thickening: the taxpayers who do not get the service they deserve, and the legion of dedicated federal employees who provide the service. The aftermath of the Oklahoma City bombing reminds all of us once again of the extraordinary commitment of front-line federal employees. They are ridiculed daily, and need only tune in their local talk radio to get an earful of public vitriol, but they persevere in their work. And thank goodness for that. If it were not for the dedication of my air traffic controllers in Farmington Center, Minnesota, who are still years away from state-of-the-art equipment, I would not be here safely today.

Options for Thinning Government

This quick tour of thickening government suggests two basic problems for this Committee as it considers proposals for changing the federal hierarchy: (1) how do we take the weight off, and (2) how do we keep it off.

The answer to the first question is simple. Cut and keep cutting. The problem is that cutting broadly and without direction will leave government far less capable of doing its job. We risk engaging in a "body count" war on hierarchy that produces quick results such as the elimination of a department or two, but little long term improvement in performance.

In fact, breaking down a mega-department such as Commerce or Energy may actually yield a thicker, not thinner, hierarchy. It might be more efficient, for example, to keep the department, and its assorted offices of administration, legal counsel, budget, and so forth, while eliminating duplicative offices of administration, etc., within NOAA, Census, Patents and Trademarks, and International Trade?

In fact, one of the reasons government is so thick is the duplication of administrative units within most departments. Why is it, for example, that we must have budget and administrative units at every level of a department's hierarchy? Why do we need a department-wide assistant secretary for administration and CFO at VA,

followed by one inside the VA Health Administration, followed by one in the regional offices, followed by one in each medical center?

Imagine instead a small number of quasi-independent "federal administrative service centers" that would provide total administrative services for the departments and agencies of government. Also imagine a private entity being allowed to compete for one or two of the centers. Such centers would provide much easier oversight for Congress and the White House, and would certainly produce cost and efficiency savings for the taxpayer.

The concept is simple. Instead of relying on their internal, multi-layered administrative units, departments and agencies would contract with a service center to perform needed administrative tasks—position classification, security investigations, small purchases, space rentals, debt collection, temporary employees, and so forth. Departments would retain a single assistant secretary for administration to provide overall *policy* guidance within the department, but all day-to-day administrative services would be contracted on a cost-reimbursable basis to the service centers.

If this idea seems outlandish, I encourage you to visit the Field Servicing Unit of the USDA's Animal Plant Health Inspection Service (APHIS) in Minneapolis. Although the Field Servicing Unit is small and has no competition, it performs all administrative services for every APHIS office in the country, and is driven by a total quality philosophy.

The office could easily expand to provide services to other units in USDA, and is fully capable of handling services for other departments. Given the opportunity to compete for business, I can absolutely assure you that the office would be up to the task, and the internal customers of government would benefit.

Service centers might solve one of the vexing problems with the current campaign to decentralize authority within departments. Although almost everyone agrees that government should reduce the number of administrative employees, thereby putting more resources on the front-lines, decentralization actually risks the opposite if every unit needs its own specialized administrative services. Moreover, decentralization also risks diffusion of accountability. Recall my earlier point regarding the difficulty of monitoring position management over the years.

Streamlining must involve more than middle-level administrators, however. I strongly encourage this Committee to put presidential appointees on the table as well. We cannot trim only at the middle and lower levels of the hierarchy, if only because presidential appointees constitute an important and oft-ignored source of delays and inefficiency in the process. The standard view of the number of appointees is that the number is too small to matter—after all, 3,000 appointees is but a fraction of total employment.

However, my research on thickening government suggests that presidential appointees account for a very high percentage of the layers that exist between the top and bottom of government. They may be but the tiniest fraction of total employment, but constitute-between 25 and 40 percent of the layers of management that exist between the air traffic controller, VA hospital nurse, weather forecaster, IRS revenue agent, park ranger, food inspector, and other front-line employees and the top of their agencies. I cannot overstate my hope that this Committee will act on this serious problem. Federal employees need to be measured by their performance in handling problems, not in terms of the number of overseers who handle paper on the way up and down the chain of command.

Finally, I also want to encourage the Committee to push forward with its reform commission legislation. I do not believe, however, that we need another "Hoover Commission." It is the wrong analogy for what needs to be done. Rather, what we desperately need is another "Greenspan Commission." Recall that Greenspan was the chair of the 1983 National Commission on Social Security Reform. What made the Greenspan Commission particularly successful was its ability to sell a package of almost entirely unpopular solutions to an impending crisis. Just about everyone was hurt by the rescue—taxpayers paid more, beneficiaries lost a COLA, future retirees will have to work longer.

The analogy to the Committee's job is obvious. Changing the structure of government is anything but easy. Virtually every position and unit created over the past 50 years has a strong sponsor somewhere. I have reluctantly concluded that reorganization can no longer be done through the normal legislative process. Creating a new Greenspan Commission, complete with a military base closing device, is the best available option for achieving the kind of thinning that government desperately needs.

Once the weight is gone, however, the secret is to keep it off. One answer is to strengthen oversight agencies such as OMB. Keep a closer watch on what the departments and agencies are doing by way of position management through better measurement, and so forth. Perhaps give the Offices of Inspectors General some

greater responsibility for tracking some of the central measures of thickening—although the OIGs themselves have thickened dramatically over the past 15 years. To stretch the weight analogy to its logical end, put a lock on the refrigerator and a video camera in the kitchen.

Personally, I do not believe that stronger oversight can supply the needed discipline alone. If the natural tendency of organizations, whether public or private, is to thicken, tighter oversight is bound to fail as the oversight agencies themselves thicken. A more persuasive answer is to create greater government attention to the cost of thickening. Make performance matter by tying it much more explicitly to budget and pay, which is, of course, a hoped-for outcome of the Government Results and Performance Act.

I have also become convinced that we must address the life tenure question. This is a particularly difficult topic, especially for a professor who happens to have life tenure. But the question must be asked: is a lifetime guarantee of employment in any field a help or hindrance to organizational performance? I am not yet prepared to suggest that all government employees and academics be placed on year-to-year contracts.

At the same time, I do believe that the public sector must create more flexible systems for removing those who lose their commitment to service. The answer may be in 5 or 10-year contracts, with renewal based on clear measures of performance, not political affiliation. It may also be in longer probationary periods, although my experience has been that the problem of life tenure usually manifests itself later and higher in career. This is, incidentally, just the kind of contentious issue that might be best handled by a new Greenspan commission.

Finally, as suggested with the service center approach, I believe that a little competition cannot hurt. This competition does not have to be between the federal government and a private entity, however. Allowing units within the federal government to compete against each other for certain kinds of business can be healthy, too. But such competition must not be allowed to drive the government to take short-cuts on essential functions such as safety and fairness.

PREPARED STATEMENT OF ROBERT S. GILMOUR

It is a privilege and a pleasure to appear before this committee today to present the perspective of one who has been a professional student of federal organization and management issues for over three decades. Throughout that period I can think of no time more crucial than the present to the operation of and even to the very existence of the structure of Executive Branch management as we have blown it.

The Committee's objective—to develop a comprehensive reorganization and rightsizing plan for the federal government—is a daunting one, particularly in light of the Committee's limited resources in contrast to the size and complexity of the federal establishment. What's more, bipartisan forces that would rapidly dismantle the federal government's management structure are at the gates, well positioned, determined, and unguided by any blown principles of government organization. Their aim to reduce the size of government is evidently to be achieved through reorganization (perhaps best be called "de-organization") of the Executive Branch. Federal department hit lists vary by reform-bent institution and individual—one department, three departments, four, even eight federal departments scheduled on some agendas for a speedy execution.

But even if those who would demolish federal departments succeed, reports of the death of the federal management structure are almost certain to be exaggerated. However important federal departments may be, they are not the fundamental units of government action; federal bureaus are. If the Department of Commerce is eliminated, for example, the constitutional mandate to conduct a decennial census will still remain, presumably in the U.S. Bureau of the Census. More than likely the Patent and Trademark Office (representing another constitutional mandate), the National Weather Service, the National Technical Information Service, the National Institute of Standards, and a fair number of other Commerce Department bureaus, their functions and programs, will also remain intact. What will be eliminated with the demise of the Commerce Department—and the same may be said of other departments which have now been placed on the chopping block—is the formal political control structure, operating on behalf of the President, to coordinate the activities of subordinate bureaus. Left free floating in the Executive Branch, the prospect of coordinating their operations is virtually nil. And even if such bureaus are regrouped into "super departments," they will be subject to the law of diminishing coordination: "The larger the organization, the poorer is the coordination among its

actions." Ironically, the destruction of departmental hierarchies will save relatively little in federal budget outlays.

Mr. Chairman, you have asked the members of this panel to suggest principles of government organization and management that might guide the Committee in its deliberations. Inevitably such principles are founded on various assumptions about why we have the form of government we do, how that government should do what it does, and ultimately what the government should be doing.

For me, and I think—still—for most Americans, these assumptions are grounded in the protective purposes of the U.S. Constitution and in public law. The separated powers design of the Constitution is inherently inefficient for a purpose: to frustrate the concentration of and uncontrolled exercise of political power. The popular democratic and judicial checks on the holders of political power were also put there for a purpose: to hold our government accountable for its actions both politically and legally. The Bill of Rights and the Fourteenth Amendment also articulate a relatively clear purpose: to protect the life, liberty, and property interests of citizens from arbitrary exercise of government power. With the growth of the administrative state during this century, subsequent statutory requirements and judicial doctrines have, in the main, reaffirmed and extended these fundamental doctrines to the execution of law through federal administration. Repeated emphasis has been placed upon openness of and public access to administrative decision-making bodies, adequate notice of pending proceedings, fairness of procedures, impartiality of administrative decision makers, and administrative decisions based upon substantial evidence, reviewable by the judiciary. The protective purposes of the Constitution and our system of public law—controlling government action, holding it accountable, and protecting citizens from government excesses and caprice—have been linked directly to how government has been organized for over 200 years. The enduring structure has been that of Executive Branch hierarchy.

The Importance of Executive Branch Hierarchy

The purpose of federal administration is to implement laws passed by Congress. From the first Congress forward, the government has been organized and tasked by laws. As a matter of implicit constitutional design, primary federal authority for implementation has been delegated to the Executive Branch. The President, as chief executive officer and Commander-in-Chief of the armed forces, is constitutionally responsible for execution of the laws. So long as the legal structure of the Executive Branch is organized hierarchically, the President and his subordinates have a fair chance of meeting their responsibilities and can be held accountable for their performance. These fundamental tenets of political accountability were clearly embraced by the Framers and embodied in the Constitution. They have influenced our organization for administration ever since.

The principle of administrative hierarchy is now passé in the private sector, and with good reason. Strict, deep hierarchies lack flexibility in response to technological innovations and rapidly changing customer preferences for specialized products and services. But this disenchantment with private business hierarchies does not logically extend to the public sector. Administrative hierarchies in the public sector have a fundamentally different purpose: to assure accountability for government action. The federal government produces very few goods and direct services, now estimated to be about 5 percent of the total U.S. budget. Today's primary federal activity is that of taking dollars from citizens through taxation, then transferring them to other citizens, often through the intermediate purchase of private goods and services on contract. Except for the government's purchases from private vendors, these are not free market exchanges. Flexible response to customer desires is not the major issue; the accountable expenditure of public funds is.

The implementation of good management techniques in administration of federal programs is also of secondary importance to accountability. This is not speculative. When something goes wrong with a government operation the issue of public trust is palpable. Government's response—to fix the blame—is immediate. That done, attention can then be turned to fixing the problem and to improving public managerial effectiveness (precisely the reverse of effective business practice). Organizational "reforms" that confuse Executive Branch hierarchies with an intricate mix of public and private authority are often most effective in both obscuring responsibility and frustrating sound management as well.

Principles of Governmental Accountability

Political and legal accountability of government officials are assured with greatest certainty when the following principles of organization are observed:

- Statutes delegate effective authority to the President or to his subordinates who are officers of the United States;

- Statutes organizing policy implementation and program administration draw clear lines of authority from the President to the heads of the departments and agencies and from them to their subordinates;
- Authority and responsibility for policy and program performance are located with certainty in single administrators, not in plural executives, interagency committees, or representative boards;
- Specific policy and program objectives are incorporated into enabling legislation, subject to reasonable and articulate standards of measurement and compliance;
- Statutory responsibility for policy and program performance is congruent with administrative authority and resources;
- Executive Branch managers are held legally accountable by reviewing courts for maintaining procedural safeguards in dealing with both citizens and employees and for conforming to legislative deadlines and substantive standards; and
- Inherently governmental functions (the making of binding law; authoritative adjudication of disputes; control over elections for government office; the unconsented taking of private property; the exercise of coercive force over others; and the denial of private rights on behalf of the state) are performed exclusively by officers of the United States and their government-employed subordinates.*

When the above principles are ignored, as increasingly they are, and when the line of demarcation between the governmental and private sectors is breached to the point of being blurred beyond recognition, accountability for government action is irretrievably lost. Despite this rather obvious finding—or perhaps because of it as a matter of blame avoidance—the government's rush to dismantle Executive Branch management structures while “privatizing” every conceivable function appears now to be in full cry.

The Contract Privatization Trap

“Privatization” in the United States typically means contracting with private companies to do the government's work. In Europe and elsewhere privatizing (or “reprivatizing” as it is often called) meant something else entirely, the sale of basic state industries (electricity, coal, oil, gas, telecommunications, etc.) that had been nationalized by government in years past. In the U.S., beyond various abandoned military bases, federal lands, government loan assets, and a number hydroelectric projects, there has been little to privatize through outright sale and virtually nothing to “reprivatize.” In addition, Congress has until now been reluctant to engage in what the British term “load shedding,” discontinuing certain government activities altogether. Consequently, in the U.S. context, “privatizing” has come to mean the delegation of federal government functions to the private sector or to the states through regulations, subsidies, tax incentives, or—most commonly—by contracting out.

The prevailing dogma of both political parties now runs strongly in favor of contract privatization. Underlying this preference is the presumption that it is virtually impossible for government to do a good job (clearly wrong) and that the private sector will almost always do a good job (also wrong). Sometimes contracting out to the private sector will be cost effective; sometimes not. Other times short-term savings as the result of contract privatization are outpaced by cost escalations in the long run. Even if cost were the only consideration in the decision to contract out for the performance government functions, each case deserves carefully scrutiny to determine whether the prevailing presumptions about savings and performance match the prospective reality.

But cost is not the only consideration in the contract privatization decision. A focus on this form of privatization may finesse difficult, politically charged questions of what the government should do for the easier one, how the government should do it, but there are other issues that will not be deferred indefinitely. These are the issues of control and accountability for the accomplishment of government functions, however they are performed:

- Widespread contract privatization inevitably diminishes political control of the actual instruments of government authority. When contract workers outnumber government employees by ratios of 10 and 20 to one—now reported to be the case in a number of federal agencies including the Department of Energy, Environmental Protection Agency, National Aeronautics and Space Administration, and the Tennessee Valley Authority—authority and responsibility of the Presi-

*See Ronald C. Moe and Robert S. Gilmour, “Rediscovering Principles of Public Administration: The Neglected Foundation of Public Law,” *Public Administration Review*, Vol. 55, No. 2 (March/April 1995), 135–46.

- dent (or anyone else) to take care that the laws be faithfully executed is severely compromised. Congressional oversight capability is undermined as well.
- Excessive reliance on government by contract diminishes legal accountability as well. Legal focus shifts from the commands of the Constitution and federal statutes to the particulars of government agreements with private vendors, Federal Acquisitions Regulations, various commercial codes, and the common law of contracts.
 - Government by private vendor, without the most careful controls and vigilant oversight, is also an open invitation to fraud. From the presidential administration of George Washington forward, the history of private contractor competence, honesty, and fair dealing is not one to inspire confidence. The scandal involving private supply contractors for the army of General Arthur St. Clair in 1791 may be long forgotten, but private defense contractor scandals of the early 1980s are well within memory's grasp. As I recall, it was the Chairman of this committee, William V. Roth, who brought those frauds and gross abuses to public attention. And just a few weeks ago, when the General Accounting Office reported that private-provider Medicare and Medicaid fraud currently reaches some 10 percent of total payments, few of us who have responsibilities for elderly relatives could be much surprised.
 - Government by delegation to private parties also reduces the constitutional and statutory rights of citizens at the hands of their "private" governors. Constitutional and civil rights are protected by federal courts when citizens deal with government agents per se, far less so if at all when those agents are "private" corporations or individuals exercising public power.

The result of contract privatization, it seems safe to say, is not so much privatization of the governmental sector as it is governmentalization of the private sector. For the moment the symbol of "privatization" is expedient and may suffice for the real thing in the short run. But no crystal ball is required to predict serious problems in the future of indiscriminate contracting out for federal operations. In the long run, relatively unchecked, free-ranging "private" agents of federal power will not be tolerated. Such "privatization" of governmental authority and power will almost inevitably be regovernmentalized by Congress and the judiciary—more laws, regulations, procedures, and control systems (red tape) applied to this so-called private sector.

A Plan for Federal Organization and Management Is Needed

The current budgetary struggle is only the most recent and dramatic episode in what may be understood as a decade and a half of federal management by budget process. Arbitrary budget ceilings and scoring targets are routinely substituted for managerial judgment and measures of program effectiveness and performance. Program outputs are afterthoughts to the primary concern for dollar inputs calculated in terms of annual budgetary outlays.

This year we have reached a new level in budget-driven decision making: federal organization by budget process. This is not for a moment to discount the pressing need for deficit reduction before the overhang of federal debt destroys the nation as we know it. But there is little point and no necessity in destroying our constitution-based federal management structure in the service of deficit reduction. The present rush to amputate various federal departments is aptly likened by Peter Drucker to "surgery without diagnosis." It is also surgery without significant budget savings.

As virtually everyone with experience in government now understands, reorganization—even "deorganization"—is not a serious tool in the effort to reduce costs. If the objective is cost reduction; cut programs not departmental hierarchies. Reorganization, including the thinning of departmental superstructures, can be both serious and effective in achieving program coherence, managerial effectiveness, and administrative accountability. But that will involve a number of considerations beyond the exigencies of budgetary scoring.

What is now needed is not only a careful diagnosis of the federal government's organization and management problems but also a plan for treatment and rehabilitation. This will require a nonpartisan, comprehensive analysis of the extra-governmental as well as governmental structures of federal administration and the development of a design for federal organization and management consistent with the protective purposes of the Constitution and the principles of our system of public law.

This committee's aim to develop such a plan is a bold one, but the Committee will need substantial assistance if that objective is to be achieved. Senator Roth has for many years advocated the establishment of a blue-ribbon commission to conduct a comprehensive review of the federal government. From my perspective, the fruits of this recommendation have been overdue for some while. At this point, the need

for a federal organization and management capability assessment and a design for future "rightsized" federal responsibilities is more urgent than ever. As a response to numerous and pressing reorganization-by-budget proposals, the creation of a Commission on Federal Organization and Management, effectively designed to take advantage of resources to be found in the General Accounting office, Congressional Budget Office, Congressional Research Service, National Academy of Public Administration, and the Office of Management and Budget, as well as the expertise of this committee, could hardly be more important or better timed.

ANDREW FOSTER,

CONTROLLER OF THE AUDIT COMMISSION, LONDON

EVIDENCE TO SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

Introduction

Andrew Foster has worked in: Central Government, as Deputy Chief Executive and Director of Performance Management in the National Health Service; in local government, as Director of Social Services; and in the National Health Service (NHS); as a Regional General Manager. He is now Chief Executive of the Audit Commission, which oversees the probity and regularity of local government and the NHS. Between them local government and the NHS spend about \$130 billion, or 15% of GDP.

Commissioners are appointed by the Government, but act independently of it in fulfilling their statutory duties. These duties include appointing auditors to all local government and NHS bodies in England and Wales. The Commission appoints 30% of auditors from major firms of chartered accountants, including KPMG Peat Marwick, Coopers & Lybrand, Touche Ross and Price Waterhouse. The remaining 70% are appointed from its own agency, District Audit.

The Audit Commission also oversees value for money in local government and the NHS. It produces 8-10 national value for money reports annually, which cover such topics as mental health services, criminal investigations, and urban regeneration. These national reports are then followed up at a local level by auditors, who undertake mandatory value for money audits in all local authority and NHS bodies across England and Wales.

The Changing UK Public Sector

The UK Public Sector has been through a momentous period of change in the last 10 years.

Whole industries - British Airways, Rover car manufacturers, the utilities, British Coal - have moved from public ownership to private ownership. This has been accompanied by an increase in regulation.

Central Government, local government and the National Health Service have all faced significant reforms. Compulsory competition and market testing have been introduced across a wide range of services which had been provided by public employees, to see whether they could be provided better or cheaper by private sector businesses.

There are a number of principles underlying these changes. They can be described by the term "Social Market". The central thesis is simple but far-reaching: the state (central or local) cannot govern effectively by becoming involved in the minutiae of service delivery. Increasingly there is a separation of those who decide what should be provided by public services from those who actually provide it - the "purchaser/provider split". Those who provide the service directly to the public can be either public sector organisations or private firms - the decision increasingly follows open competition and is based on quality and price.

To ensure the continued accountability of public bodies, mechanisms for external audit and performance measurement mechanisms have been substantially enhanced.

Following the principles of the Citizen's Charter, all public services are expected to guarantee explicit performance targets and to publish indicators which show the extent to which those targets have been achieved. The Audit Commission has a statutory duty to specify the indicators of performance which every local authority must collect and publish annually. The Commission itself publishes the complete set nationally, to facilitate the comparison of the performance of different local authorities. Publication of the same indicators each year will allow electors to identify trends in the performance of each local authority.

Next Steps Agencies

One way in which the principles of the Social Market have been applied is through the establishment of executive agencies, called 'Next Steps' agencies.

The Audit Commission itself has had very recent experience of this, having given its auditing service agency status in November, 1994. The new agency, District Audit, now provides audit services to local government, the National Health Service and other organisations, as appointed by the Commission, within the Code of Audit Practice determined by the Commission and approved by Parliament.

District Audit has a separate Chief Executive, a framework document and its own strategy and corporate plan. Some of the audit appointments are made following competitive tendering. During competition, District Audit competes directly with the private sector firms of accountants.

In Central Government, executive agencies have been introduced through the "Next Steps" programme.

This was set up in response to a report on management in government by the then Prime Minister's efficiency advisor, Sir Robin Ibbes, in 1987.

The Ibbes review felt that the 50 departments and 600,000 staff of the British Civil Service was too big to be managed as a single body; that ministers were over-loaded; that senior civil servants lacked service delivery skills and experience, and that there was too much emphasis on policy making and not enough on improving service standards.

It suggested the creation of executive agencies. The prime purpose of agencies was to improve management in the Civil Service and to use available resources to provide better quality services for the benefit of taxpayers, customers and staff. Agencies are discrete management units within government, with clearly defined functions. The minister gives the agencies clear aims, objectives and targets, and they are provided with resources to carry out the necessary tasks.

The Government remains responsible for setting policy, but agencies are responsible for implementing it, through explicit "contracts" between themselves and Government departments.

Agencies replace "management by command" with "management by contract". They make it clearer who does what, and what it costs. They are still part of the central government system, and of their departments, and are still accountable to ministers.

The UK now has over 100 such agencies covering 66% of the total staff of the civil service. They range from the Social Security Benefits Agency with 65,000 staff, to the National Weights and Measures Laboratory with 45 staff. They have responsibilities as diverse as weather forecasting and the management of prisons.

Some other examples of agencies are:

- ◇ Highways Agency - main road network
- ◇ Child Support Agency - recovering funding for single mothers from fathers
- ◇ Passport Agency
- ◇ Inland Revenue - personal and business taxation
- ◇ Customs & Excise

Some agencies have been put on a trading account basis, and others have been created as agencies as an interim step towards privatisation.

The establishment of Agencies

When considering the introduction of an agency for a given service, British politicians and civil servants first consider the following questions:

- ◇ Is the service necessary at all?
- ◇ Are there alternative options - for example, privatisation or contracting out?
- ◇ Is agency status appropriate? (Are ministers involved on a day-to-day basis? Is it a discrete unit? Is change justified?)

If it is decided that an agency should be established, the management arrangements - the respective responsibilities of the minister and the agency - are set out in a framework document. This document requires clear analysis of the function and purpose of the agency. It generally covers the following areas:

- ◇ aims & objectives
- ◇ reporting and accountability
- ◇ finance
- ◇ audit, reporting and evaluation
- ◇ personnel, pay and training
- ◇ other delegations
- ◇ communications and employee relations
- ◇ review and variation of framework

Framework documents have been described by one legal commentator as, "not like commercial contracts but much more like delegated legislation".

The choice of a chief executive is also a critical part of the setting up of a new agency. Appointment is usually by open competition, but the use of recruitment consultants is becoming more common. Contracts are usually for a fixed term and pay is closely linked to performance.

How they work

The minister remains in charge, and accountable to Parliament. The minister must agree the framework document and appoint the chief executive. All the authority the chief executive has is delegated by the minister. The minister sets targets, approves plans, negotiates with Her Majesty's Treasury for resources and monitors performance.

Within that framework the chief executive is free to manage day-to-day operations as she/he sees fit. He or she also proposes plans, budgets and targets to the minister.

Financial Performance

One major impact of the creation of agencies has been to focus attention on costs. A growing number of agencies have productivity targets based on unit cost information.

Other agencies which operate as trading funds in a fully commercial environment will have financial targets, with the key target usually being rate of return on capital employed.

In each case the chief executive is the accounting officer for the agency. However, the degree of financial delegation varies between agencies. The Employment Service, one of the UK's largest and most successful agencies, is a fairly representative example. Its chief executive is empowered to:

- ◇ control the allocation of resources to different heads within the agency's budget,
- ◇ switch expenditure between particular blocks,
- ◇ carry forward an agreed percentage of un-spent running costs into a subsequent year,
- ◇ switch money, in-year, between capital, running costs and programme provision and
- ◇ generate revenue from approved activities

He cannot, however:

- ◇ allocate money to a new service, or
- ◇ expand the work of the agency in a way that would create additional expenditure commitments in the future.

Benefits of Agencies

The establishment of agencies brings a number of significant benefits.

- ◇ Agencies tend to put more emphasis on service to the customer. There are numerous examples:
 - Retirement pension claims, which took 31 days to be processed in 1985-6, had come down to 21 days in 1989-90
 - Passport applications are now processed more quickly (i.e. within 8 working days)
 - Waiting times for driving tests are down (to a maximum of 10 weeks).
- ◇ Explicit contracts lead to more clarity of responsibility between politicians and executives.

- ◇ The process of contract-writing often generates challenging questions about what the public services should provide - questions which would previously have been left unasked as well as unanswered.
- ◇ There is greater visibility of standards and achievement, and this encourages improvements in performance. For example, in 1993/4 typical accuracy rates amongst benefit payments were as follows:

- Unemployment benefit:	target: 96.5% correct	actual: 96.4%
- Income support:	target: 92% correct	actual: 90.7%
- Disability living allowance:	target: 96% correct	actual: 97.3%
- ◇ The executives have more freedom to manage
- ◇ There is less political interference from Ministers in matters of detail and implementation

Problems with Agencies

There are three areas where there can be problems with agencies:

i. The Policy / Operations Dichotomy

It can be difficult for politicians to avoid interfering if an agency's business has a very high political profile, since it is not always easy to distinguish policy from operational matters.

The acid test is when things go wrong. Citizens can find it hard to hold ministers or executives to account for failures. Despite the framework documents, Government can blame failures on incompetent executives, whilst executives can blame Government for incorrect policies or inadequate funding.

The Child Support Agency is a case in point. Set up to collect child maintenance payments from fathers who no longer live with their children, the Agency soon ran into trouble. Errant fathers protested that the CSA took so much money for the support of their estranged families that they were no longer able to support their new families. The estranged mothers complained that the extra money given to them by one hand of the Government was, as often as not, taken back in the form of lower benefits. Media blame and public vitriol focused on the chief executive of the agency, when she was trying to implement policy which had wide Parliamentary support.

The CSA came under enormous public pressure for what was actually a direct consequence of the policy determined by Government. In fact the Government did eventually give the Agency a revised framework document, but only after the chief executive had resigned.

This illustrates the common confusion between responsibility for outputs and outcomes. It is often difficult to foresee the causal link between the specified outputs and certain undesirable political outcomes. Neither are the media or the public at large able to distinguish between those responsible for the outputs and those responsible for their consequences (the outcomes).

ii. Role of chief executives

There is also a conflict of interests when it comes to the appointment of chief executives. For where chief executives of agencies are appointed primarily for their operational skills and take at face value the contractual nature of their relationship with government, the ability of government to assert its control events will be reduced. Clearly this will not always be attractive to politicians, who may be tempted to appoint "insiders" to head key agencies because they will be more alert to the political repercussions of their actions.

iii. Provision of Central Services

Three years into the British Initiative, a Government review looked to see whether the benefits identified by the Ibbs report had been realised.

One of the report's key findings was that the number of personnel and finance staff at the centre of departments had not reduced, although a number of their functions had been delegated to agencies. It recommended that staffing levels should be carefully reviewed once the process of agency creation had been completed, to prevent over-staffing and minimise "second guessing" by departments of functions that had been transferred to agencies. It estimated that an aggregate reduction of about 25% of support staff in the centres should be possible.

A further finding was that there was a need for increased hard charging for services provided to agencies by government departments. This would give agencies full control over money spent on services such as IT and internal audit and would therefore introduce the benefits of greater competition in the purchase of these services.

Conclusion

The agency model is potentially very powerful.

It offers greater clarity of responsibility and it encourages better specification of need, in the form of agency objectives. It gives managers the freedom to act as they think fit, within a defined policy framework, and allows politicians to focus on policy and be more detached from the minutiae of implementation.

The Next Steps programme in the UK has generally had a successful start.

The main difficulty has been in the distinction between policy and operational matters. The difficulty in defining what is policy and what is operational has led to tension between some chief executives and their departmental ministers. Even where lines of accountability are clear they are not always widely understood.

Next Steps offered a number of potential benefits to a Government which was labouring under an ever-expanding workload. Some services have certainly improved and it is widely accepted that a number of departments have benefited substantially in terms of management arrangements and efficiency. However, no final judgement can be made

until more of the existing executive agencies have been given time to settle down, and a thorough analysis of their performance has been undertaken.

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June 14, 1995

AGENCY MISSION STATEMENTS

[Compiled primarily from agency REGO II submissions and strategic plans.]

Department of Agriculture

The mission of the Department of Agriculture is to ensure the well being of Americans with special emphasis on individuals engaged in commercial agriculture and forestry, families needing nutritional services, consumers dependent on a safe, affordable food supply, and residents of depressed rural areas. In recent years, the Department has increasingly been called upon to protect the non-commercial elements of the Nation's natural resource base.

Within the new structure, the Department continues to operate over 200 programs organized in 7 mission areas as follows:

1. Farm and Foreign Agricultural Services
2. Rural Economic and Community Development
3. Food Nutrition and Consumer Services
4. Natural Resources and Environment
5. Food Safety
6. Research, Education and Economics
7. Marketing and Regulatory Programs

U.S. Agency for International Development

The goals of the U.S. Agency for International Development are to (1) help establish the conditions for democracy and free enterprise in partner countries in the developing world through technical assistance and (2) provide humanitarian relief in situations of natural or man-made disasters in a manner that advances long-term development goals. Our efforts are designed to move nations to self-sufficiency in order to promote stability and create markets for U.S. goods, thereby advancing U.S. national security interests and the U.S. economic and trade position.

Department of Commerce

Mission: To ensure and enhance economic opportunity for all Americans by working in partnership with businesses, communities, and workers.

The Department of Commerce accomplishes its mission through five agency goals or functions:

- Civilian Technology;
- Export Growth;
- Sustainable Development;
- Economic Development; and
- Economic Information and Analysis.

Department of Defense

The mission of the Department of Defense is to support and defend the Constitution of the United States, to provide for the common defense of the United States, its citizens and its allies, and to protect and advance U.S. interests around the world.

Vision Statement:

Successfully defends the United States, its citizens, interests and allies.

Fields the best trained, best equipped, best prepared joint fighting force in the world.

Supports alliances/security relationships that protect/advance U.S. security interests.

Advances national priorities in concert with Congress, other agencies and the private sector.

Serves as a model of effective, efficient and innovative management and leadership.

Department of Education

The Department of Education's mission is to ensure equal access to education and to promote educational excellence throughout the nation.

The Department's Goals:

- Achieve the National Education Goals

- Ensure equity.
- Build partnerships with customers.

The Department has identified four key agency functions to address this mission:

- Help all K-12 students reach challenging academic standards so that upon graduation they are prepared for responsible citizenship, further learning, and productive employment.
- Support the creation of comprehensive School-to-Work systems in every State.
- Promote access to high-quality post-secondary education and lifelong learning.
- Transform the U.S. Department of Education into a high performance organization.

Department of Energy

The Department of Energy, in partnership with our customers, is entrusted to contribute to the welfare of the Nation by providing the technical information and the scientific and educational foundation for the technology, policy, and institutional leadership necessary to achieve efficiency in energy use, diversity in energy sources, a more productive and competitive economy, improved environmental quality, and a secure national defense.

The Department of Energy has identified four clear "lines of business" within this mission:

Energy Resources;
Science and Technology;
National Security; and
Environmental Quality.

Environmental Protection Agency

The people who work at the Environmental Protection Agency are dedicated to improving and preserving the environment--in this country and around the globe. Highly skilled and culturally diverse, we work with our partners to protect human

health, ecosystems, and the beauty of our environment using the best available science. We value and promote innovative and effective solutions to environmental problems. We strive to achieve the productive and sustainable use of natural resources on which all life and human activity depend.

The EPA has identified the following principles for guiding how it will achieve its goals:

Ecosystem Protection;
 Environmental Justice;
 Pollution Prevention;
 Strong Science and Data;
 Partnerships;
 Reinventing EPA Management; and
 Environmental Accountability.

Federal Emergency Management Agency

The mission of the Federal Emergency Management Agency is to reduce the loss of life and property and protect our institutions from all hazards by leading and supporting the Nation in a comprehensive, risk-based emergency management program of mitigation, preparedness, response, and recovery.

FEMA has adopted five mission-associated goals and one organizational goal to guide its management and program decisions. They are:

- Create an emergency management partnership with other Federal agencies, State and local governments, volunteer organizations, and the private sector to better serve our customers.
- Establish, in concert with FEMA's partners, a national emergency management system that is comprehensive, risk-based, and all-hazards in approach.
- Make hazard mitigation the foundation of the national emergency management system.
- Provide a rapid and effective response to, and recovery from, disaster.
- Strengthen State and local emergency management.
- Revitalize the Agency and develop a more diverse and effective cadre of FEMA managers and employees.

General Services Administration

To improve the effectiveness of the federal government by ensuring quality work environments for its employees. GSA is playing a key role in creating a government that "works better and costs less." As we do so, we will test each individual piece of our activities by the standard we put in place last year: to be "better, cheaper, faster, easier and smarter" than anyone who competes with us in providing similar services. We will pursue optimal value for both the taxpayers and our customers. As we define our strategies to accomplish this Mission in the final years of this century, it is clear that we will be doing so in a rapidly changing world. It is a world transforming itself into one which bears little resemblance to the world that existed when the GSA was first created nearly half a century ago. We know that the rate of change will continue to escalate in the world around us, in American society, in the Federal community, and within the businesses we pursue to achieve our Mission.

Department of Health and Human Services

The responsibility of HHS is to protect and promote the health and economic security of all Americans and in particular those least able to help themselves--children, the elderly, persons with disabilities, and the disadvantaged-- by helping them and their families develop and maintain healthy, productive, and independent lives.

HHS -- together with our Federal, state, tribal, and local government partners and other public and private health and human service organizations -- attempts to accomplish this mission in a way that provides the highest quality of service to the American people, assures fairness and equity to all people, and protects the public investment in our programs.

Department of Housing and Urban Development

HUD was created to carry out the Nation's commitment to work for healthy growth in cities, adequate housing for all, and protection of society's most vulnerable people.

In order to focus that mission HUD has created the following "community empowerment principles":

A Commitment to Community.

A Commitment to Support Families.

A Commitment to Economic Lift.

A Commitment to Reciprocity and to Balancing Individual Rights with Responsibilities.

A Commitment to Reduce Separations by Race and Income in American Life.

Intelligence Community

The United States intelligence effort shall provide the President and the National Security Council with the necessary information on which to base decisions concerning the conduct and development of foreign, defense and economic policy, and the protection of United States national interests from foreign security threats. All departments and agencies shall cooperate fully to fulfill this goal.

Department of the Interior

As the Nation's principal conservation agency, the Department's mission is to encourage and provide for the appropriate management, preservation, and operation of the Nation's public lands and natural resources for use and enjoyment both now and in the future; to carry out related scientific research and investigations in support of these objectives; to develop and use resources in an environmentally sound manner and provide an equitable return on these resources to the American taxpayer; to carry out trust responsibilities of the U.S. Government with respect to American Indians and Alaska Natives; and to build partnerships with U.S. affiliated insular areas.

Department of Justice

As the largest law firm in the Nation, the Department of Justice serves as counsel for its citizens. It represents them in enforcing the law in the public interest. Through its thousands of lawyers, investigators, and agents, the Department plays the key role in protection against criminals and subversion, in ensuring healthy competition of business in our free enterprise system, in safeguarding the consumer, and in enforcing drug, immigration, and naturalization laws. The Department also plays

a significant role in protecting citizens through its efforts for effective law enforcement, crime prevention, crime detection, and prosecution and rehabilitation of offenders.

Moreover, the Department conducts all suits in the Supreme Court in which the United States is concerned. It represents the Government in legal matters generally, rendering legal advice and opinions, upon request, to the President and to the heads of the executive departments. The Attorney General supervises and directs these activities, as well as those of the U.S. attorneys and U.S. marshals in the various judicial districts around the country.

Department of Labor

The U.S. Department of Labor fosters, promotes and develops the welfare of the wage earners of the United States to improve their working conditions and advance their opportunities for profitable employment. To carry out this mission, the Department administers a variety of Federal labor laws guaranteeing workers' rights to safe and healthful working conditions; a minimum hourly wage and overtime pay; workers compensation; freedom from employment discrimination and unemployment insurance. The Department also protects workers' pension and other benefit rights; offers job-training programs; helps workers find jobs and employers find workers; helps to strengthen free collective bargaining and tracks changes in employment, prices and other economic measurements"

National Aeronautics and Space Administration

It is NASA's mission to:

- Explore, use, and enable the development of space for human enterprise.
- Advance scientific knowledge and understanding of the Earth, the solar system, and the universe and use the environment of space for research.
- Research, develop, verify, and transfer advanced aeronautics, space, and related technologies.
- The outcomes of NASA's activities contribute significantly to the achievement of America's goals in four key areas:

Economic Growth and Security.

We conduct aeronautics and space research and develop technology in partnership with industry, academia, and other Federal agencies to keep

America capable and competitive.

Preserving the Environment.

We study the Earth as a planet and as a system to understand global change, enabling the world to address environmental issues.

Educational Excellence.

We involve the educational community in our endeavors to inspire America's students, create learning opportunities, and enlighten inquisitive minds.

Peaceful Exploration and Discovery.

We explore the universe to enrich human life by stimulating intellectual curiosity, opening new worlds of opportunity, and uniting nations of the world in this quest.

National Science Foundation

The purpose of the National Science Foundation (NSF) is to promote achievement and progress in science and engineering, and to enhance the potential for research and education to contribute to the Nation.

The National Science Foundation Act of 1950 (Public Law 81-507) established the agency and authorized NSF to initiate and support:

- basic scientific research and research fundamental to the engineering process,
- programs to strengthen scientific and engineering research potential,
- science and engineering education programs at all levels and in all the various fields of science and engineering,
- programs that provide a source of information for policy formulation, and other activities to promote these ends.

Office of Personnel Management

OPM serves the public by providing human resource management leadership and high-quality services based on merit principles, in partnership with federal agencies and employees.

The President, Congress, and agencies look to OPM for advice on human resources policy. OPM provides effective, merit-based, and family-friendly personnel

systems for use governmentwide and ensures that agencies are accountable for their appropriate use. OPM is the preferred source for system design and expert consultation concerning human resource operating systems, research and innovation, and education and training in human resources and management. Ultimately, OPM's efforts support a federal workforce that achieves the results desired by the American public.

Small Business Administration

It is the mission of the Small Business Administration to champion the entrepreneurial spirit of America's small business community in the most cost effective manner possible while creating the jobs and opportunities which this country needs to remain competitive in the global marketplace.

We are committed to making the SBA the champion of small business, nurturing the pioneering spirit which is so central to our tradition....Our vision for the SBA revolves around two words: OUTREACH and MANAGEMENT.

In order to accomplish this mission, SBA has created the following policy goals and performance measures:

- Free up capital for investment in small businesses; work to end the credit crunch and create jobs.
- Eliminate unnecessary paperwork and regulations that inhibit the growth and productivity of small businesses.
- Reinvigorate the SBA to construct a lean, highly-motivated organization focused on the needs of small businesses.
- Be the "eyes and ears" of the President for small business.

Social Security Administration

To administer national Social Security programs, including Social Security Insurance and Supplemental Security Income, as prescribed by legislation, in an equitable, effective, efficient and caring manner.

Everything SSA does is designed to achieve one or more aspects of this basic mission. It is this mission that drives SSA's goal and objectives. SSA has identified three major goals that serve to organize our efforts:

Rebuild Public Confidence in Social Security.
Provide World-Class Public Service.
Create a Nurturing Environment for SSA Employees.

State Department

Secretary of State Warren Christopher has outlined the mission of the Department as follows:

to serve the President and American citizens with imagination, dedication, and efficiency;

to lead the U.S. Government in formulating and implementing foreign policy; and

to hire the very best people, train and treat them well, and provide the direction and resources they need to do their jobs.

Department of Transportation

The Department of Transportation will 'Tie America Together' with a safe, technologically advanced, and efficient transportation system that promotes economic growth and international competitiveness now and in the future, and contributes to a healthy and secure environment for us and our children.

In order to accomplish this overall mission the Department of Transportation has identified seven primary goals:

"Tie America together" through an effective intermodal transportation system.

Invest strategically in transportation infrastructure, which will increase productivity, stimulate the economy, and create jobs.

Create a new alliance between the nation's transportation and technology industries, to make them both more efficient and internationally competitive.

Promote safe and secure transportation.

Actively enhance our environment through wise transportation decisions.

Put people first in our transportation system by making it relevant and accessible to users.

Transform DOT by empowering employees in a new team effort to achieve our goals.

Department of the Treasury

The mission of the Department of the Treasury is to formulate and recommend economic, fiscal and tax policies; serve as financial agent of the United States Government; enforce the law; protect the President and other officials; and manufacture coins and currency.

Treasury's functions are broad and critical to the Nation's well-being and include:

- serving as the President's principal advisor in formulating international monetary, financial and trade policies;
- developing policies that consider economic effects of tax and budget policy;
- regulating national banks, the government securities markets and federal and state chartered thrifts;
- selling securities needed to finance the Federal Government, and reporting on the government's financial condition;
- collecting the proper amount of income tax revenue, at the least cost to the public and with the highest degree of public confidence;
- collecting revenue from imports, and excise taxes on alcoholic beverages and tobacco products;
- improving government-wide financial management;
- disbursing payments to over 100 million citizens annually;
- enforcing laws related to:
 - smuggling drugs and contraband;
 - trade, tax, and financial institution and telecommunications fraud
 - exports of high technology and munitions; counterfeiting and money laundering;
 - alcohol, tobacco, firearms, explosives, and violent crimes; and
 - the protection of the President, Vice-President, and others;

- training law enforcement officers; and
- manufacturing currency, coins and stamps for the Nation's commerce.

United States Information Agency

USIA's mission is to understand, inform and influence foreign publics in promotion of the national interest, and to broaden the dialogue between Americans and U.S. institutions and their counterparts abroad.

With the spread of democracy and popular politics and the revolution in communications and information worldwide, the organization and policy emphasis of the Agency have changed significantly, but the core purposes have remained constant:

To explain and advocate U.S. policies in terms that are credible and meaningful in foreign cultures.

To provide information about the official policies of the United States, and about the people, values and institutions which shape those policies.

To build lasting relationships and understanding between Americans and U.S. institutions and their counterparts overseas through the exchange of people and ideas.

To advise the President and other policy makers on the ways in which foreign attitudes will have a direct bearing on the effectiveness of U.S. policies.

Department of Veterans Affairs

The Department's mission is to serve America's 26.5 million veterans and their families with dignity and compassion and to be their principal advocate in ensuring that they receive the care, support, and recognition earned in service to this Nation. A wide variety of VA programs have been created, each intended to meet specific veteran needs. They include compensation for disabilities incurred in service, education, guaranteed home loans, burial benefits, and life insurance. In addition to providing direct health care, VA's medical missions include research, education and training, and emergency preparedness. National cemeteries provide burial services and are shrines to the heroes of the past.

Information on regional offices
for major Departments and agencies

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USDA REGIONAL OFFICES
(number of locations in parentheses)

BUREAUS

Agricultural Research Service (8)

Beltsville, MD; Philadelphia, PA; Peoria, IL;
Albany, CA; Fort Collins, CO; College Station,
TX; Stoneville, MI; Athens, GA

Food Safety and Inspection Service (5)

Alameda, CA; Des Moines, IA; Atlanta, GA;
Philadelphia, PA; Dallas, TX

Consolidated Farm Service Agency (16) a/

Billings, MT; Jackson, MI; Oklahoma City, OK;
Raleigh, NC (2); Sacramento, CA (2); Spokane,
WA; Springfield, IL; St. Paul, MN (2); Topeka,
KS; Valdosta, GA; Dallas, TX; Indianapolis, IN;
Kansas City, MO

Forest Service (9)

Missoula, MT; Lakewood, CA; Albuquerque, NM;
Ogden, UT; San Francisco, CA; Portland, OR;
Juneau, Alaska; Atlanta, GA; Milwaukee, WI

Natural Resource Conservation
Service (6)

Sacramento, CA; Washington, DC; Atlanta, GA;
Fort Worth, TX; Lincoln, NE; Madison, WI

Food and Consumer Service (7)

Robbinsville, N.J.; Boston, MA; Chicago, IL;
Atlanta, GA; Denver, CO; Dallas, TX, San
Francisco, CA

Animal and Plant Health Inspection
Service (10)

Moorestown, NJ; Brownsville, TX; Gulfport, MI;
Sacramento, CA; Scotia, NY; Tampa, FL; Fort
Worth, TX; Engelwood, CA; Brentwood, TN;
Lakewood, CO

LOCATIONS

Grain Inspection, Packers and
Stockyards Administration (11)

Atlanta, GA; Bedford, VA; Denver, CO; Fort
Worth, TX; Indianapolis, IN; Lancaster, PA;
Kansas City, KS; Memphis, TN; Omaha, NE;
Sacramento, CA; South St. Paul, MN

Exec. Operations, National Appeals (3)

Indianapolis, IN; Memphis, TN; Golden, CO

Office of the Inspector General (7)

New York, NY; Riverdale, MD; Atlanta, GA;
Chicago, IL; Temple, TX; Kansas City, MO; San
Francisco, CA

Office of the General Counsel (5)

Atlanta, GA; Denver, CO; Harrisburg, PA; Kansas
City, MO; San Francisco, CA

a/ Federal Crop Insurance Corporation (CFSA) includes 16 offices, 10 of which are regional
service centers and six of which are compliance centers. There are three cities that have
both a compliance office and a service office.

Discussion:

IMPACT OF REGO: USDA has questioned each bureau as to the impact of REGO, and states that
these offices will not be affected by REGO. This is because the major impact of REGO is
on the rural development programs, which do not have a regional office structure.

Regional Offices

DEPARTMENT OF COMMERCE

BUREAU

Export Administration

Economic and Statistics
Administration, Bureau of
Census

Economic Development Admin.

International Trade Admin.

Minority Business Development
Administration

National Oceanic & Atmospheric
Administration

National Telecommunications
and Information Administration

LOCATIONS

Newport Beach, CA; Nashua, NH

Boston, MA; New York, NY; Philadelphia, PA; Detroit,
MI; Chicago, IL; Kansas City, MO; Seattle, WA;
Charlotte, NC; Atlanta, GA; Dallas, TX; Denver, CO; Los
Angeles, CA;

Philadelphia, PA; Atlanta, GA; Chicago, IL; Denver, CO;
Austin, TX; Seattle, WA;

San Francisco, CA; Atlanta, GA; St. Louis, MO;
Cincinnati, OH; Philadelphia, PA; Long Beach, CA;
Miami, FL; Chicago, IL; Baltimore, MD;

New York, NY; Chicago, IL; Atlanta, GA; Dallas, TX; San
Francisco, CA;

Anchorage, AK; Juneau, AK; Seattle, WA; Boston, MA;
Monterey, CA; Chesapeake/Norfolk, VA; Bohemia, NY;
Kansas City, MO; Ft. Worth, TX; Salt Lake City, UT;
Anchorage, AK; Honolulu, HI; Gloucester, MA; St.
Petersburg, FL; Miami, FL; Long Beach, CA;
Denver/Boulder, CO; Terminal Island, CA;

Atlanta, GA; Denver, CO; Seattle, WA; Denver/Boulder,
CO;

DISCUSSION:

The Department of Commerce does not have any regional offices that are currently under
REGO II Review.

Agency Regional Offices
Department of Defense

1. Defense Logistics

Regional Office

Defense Contract Management District
South (DCMSDS)

Location

Marietta, GA

Discussion:

The Contract Management District Offices provide management oversight for area and Defense Plant Representative offices throughout the United States. Due to the Department of Defense (DoD) force structure reductions, and the resulting reduction in acquisition workload closure of DCMSDS and assignment of its workload to the remaining two districts is feasible and has been proposed as part of the Base Realignment and Closure 1995 (BRAC 95).

2. Defense Finance and Accounting Service (DFAS)

Regional Office

Regional DoD Finance and Accounting Offices

Location

Miscellaneous locations nationwide

Discussion:

In May 1994, as a major step in streamlining DoD-financed operations, 300 regional DoD finance and accounting offices are being consolidated to 5 existing major centers and 20 new satellite offices.


DEFENSE FINANCE AND ACCOUNTING SERVICE

 1931 JEFFERSON DAVIS HIGHWAY
 ARLINGTON, VA 22240-6291

 Fact Sheet 01/001
 (Update)
 May 30, 1995

Defense Finance and Accounting Service

The Defense Finance and Accounting Service (DFAS) is the accounting arm of the Department of Defense (DoD). DFAS was activated on January 15, 1991, to improve the overall effectiveness of DoD financial management through the consolidation, standardization and integration of finance and accounting procedures, operations and systems. Finally, DFAS is responsible for identifying and implementing finance and accounting requirements, systems and functions for appropriated and non-appropriated funds, as well as working capital, revolving funds and trust fund activities—including security assistance.

The agency employs approximately 26,000 people and consists of a small headquarters located in Arlington, Virginia, and five core finance and accounting centers located at:

- DFAS - Cleveland Center, Cleveland, Ohio
- DFAS - Columbus Center, Columbus, Ohio
- DFAS - Denver Center, Denver, Colorado
- DFAS - Indianapolis Center, Indianapolis, Indiana
- DFAS - Kansas City Center, Kansas City, Missouri

Nearly 300 field finance and accounting sites located nation-wide report to these five centers. However, as a result of two related decisions by the Deputy Secretary of Defense, DFAS has begun consolidating operations into the five centers and 21 operating locations (OPLOCs). This process is expected to take five to seven years.

The agency's customers number in the millions and DFAS serves them in a variety of ways. As of April 1995, roughly 2.9 million military members, nearly 2 million retirees and annuitants, and more than 600 thousand DoD civilians receive their pay from DFAS. Millions of family members, businesses and other organizations are provided allotments from their pay. DFAS also pays approximately 23 million invoices each year and issues 6 million U.S. savings bonds annually. In accomplishing this, DFAS disburses and controls the accounting for \$270 billion each year.

Managers at all levels throughout DoD receive from DFAS the accounting support and financial management information essential to manage effectively from DFAS. Foreign governments depend on DFAS to account for their purchases from DoD.

OPTIONAL FORM NO. 10 (7-89)

FAX TRANSMITTAL

of pages 2

TO: <i>Bucky Schmidt</i>	FROM: <i>Jean Marshall</i>
DATE RECEIVED: <i>5/28/95</i>	PHONE: <i>(703) 607 2716</i>
FAX: <i>695-1493</i>	FAX: <i>2829</i>

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OASD (P&L) /BCU-

: 10:33 : 6-2-95 :

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The agency's strategic plan calls for DFAS to develop and operate standardized systems in each finance and accounting business area within five years. The designated migratory finance systems are:

- The Defense Joint Military Pay System. This system will pay all Army and Air Force active duty members; reserve and National Guard personnel; Reserve Officer Training Corps cadets and midshipmen; Armed Forces Health Professional Scholarship Program students and the U.S. military academy cadets and midshipmen by the end of 1996. DFAS will begin converting Navy active and reserve accounts in December 1995. All Army, Navy and Air Force personnel will be paid by this system by January 1997.
- The Defense Civilian Pay System. This system will serve 460,000 civilian pay accounts by the end of September 1995.
- The Defense Retiree and Annuitant Pay System. This system processes retired pay and annuities for all military retirees and annuitants. Implementation of this system began in May 1993 and was completed in April 1995.
- The Defense Transportation Payment System. This system will standardize transportation payments using electronic data interchange.
- The Defense Debt Management System. This system, the first standardized financial system to be fully implemented, is used to collect the debts of former military members and DoD civilians, and delinquent contractor accounts.

To improve the quality of accounting support, DFAS will select interim migratory accounting systems along military component lines in general accounting, and along business area lines for the Defense Business Operations Fund. The selections will be a collaborative process between the Under Secretary of Defense (Comptroller) along with the DFAS customers served by these systems and DFAS.

While this approach supports a transition to a smaller number of improved accounting systems, it is principally designed to bring more immediate improvement to DoD's accounting and finance reporting. Ultimately, the interim migratory systems will be further reduced to DoD-wide standard accounting systems.

At the same time, DFAS is implementing plans to consolidate DoD finance and accounting resources at the 20 OPLOCs selected by the Deputy Secretary of Defense. In addition, Pacific operations are being consolidated at an OPLOC in Hawaii. Ultimately, this process will result in each major DFAS site's operating on standardized and consolidated finance and accounting systems. Meanwhile, the agency will continue to pursue savings by expanding the use of modern technology and business practices, eliminating duplicative and unnecessary procedures.

Questions on this issue should be addressed to the Office of Public Affairs, DFAS - Headquarters, 1921 Jefferson Davis Highway, Arlington, VA 22240-5291.



NEWS RELEASE

OFFICE OF ASSISTANT SECRETARY OF DEFENSE
(PUBLIC AFFAIRS)

WASHINGTON, D.C. 20301

PLEASE NOTE DATE

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(703)697-3189(copies)
(703)697-5737(public/industry)

IMMEDIATE RELEASE May 3, 1994

DEPARTMENT OF DEFENSE ANNOUNCES MAJOR FINANCIAL CONSOLIDATION

Deputy Secretary of Defense John Deutch today announced a major step in streamlining the Defense Department's financial operations, naming the 25 locations selected as sites for consolidating nearly 300 DoD finance and accounting offices.

The selected sites are: Denver, Colo.; Indianapolis, In.; Kansas City, Mo.; Cleveland, Ohio; Columbus, Ohio; Fort Ord, Calif.; Norron AFB, Calif.; Oakland Naval Supply Center, Calif.; San Diego, Calif.; Orlando Naval Training Center, Fla.; Pensacola, Fla.; Rock Island Arsenal, Ill.; Chanute AFB, Ill.; Blue Grass Army Depot, Kentucky; Loring AFB, Maine; St. Louis, Mo.; Offutt AFB, Neb.; Griffiss AFB, N.Y.; Gentile AFB, Ohio; Fort Sill, Okla.; Charleston Naval Ship Yard, S.C.; Memphis Naval Air Station, Tenn.; San Antonio, Texas; Norfolk, Va; and Newark AFB, Ohio.

In making this announcement, Secretary Deutch stated, "This consolidation plan is the product of a sound, fair process. It is designed to advance DoD's broader goal to reform its financial management and reduce its cost. It will substantially help us to standardize DoD business practices, modernize support operations, improve customer service, and ensure the integrity of our financial and accounting systems."

Deutch said the plan embodies decisions to keep the five existing major centers and create 20 new satellite offices. These new offices will employ about 750 high-quality workers each, providing the department with the capability it needs to bring its finances in order while achieving significant economies of scale in the operation of the offices.

The consolidation step is necessary to shrink the Department's overhead and support structure as the overall defense establishment is reduced; it is also the engine that will standardize and integrate DoD finance and accounting systems.

Previously the DoD process for selecting the sites underwent a false start. The first process, named the Opportunity for Economic Growth (OEG), was rejected last year on the grounds it was questionable public policy. The basis for site selection was what the local community could offer the federal government. It had the trappings of an auction for public service jobs and was inconsistent with President Clinton's defense reinvestment program. In keeping with the reinvestment program, many of the sites selected were previously closed DoD facilities.

-MORE-

202955722: # 4 / 5

ASD (P&I) /BCI-

: 10:35 : 6-2-95 :

SENT BY:ASD (P&I) /BCI

OPTIONAL FORM NO. 10 (7-82)

FAX TRANSMITTAL		# of pages: 2
To: Becky Schmidt	From: ASD (PA)	
Date: 5/4/95	Page: 1	
FORM 100-91-111 (2-81)		

The offices were attractive propositions to local communities. The major finance centers bring about \$175 million a year to their communities while the average satellite office will put about \$48 million in to the communities of their host locations. In addition, construction or renovation is likely to be associated with all the offices.

The new site selection process focused on an evaluation based on four criteria: total cost to the U. S. government; capability to provide excellent customer service; use of excess defense assets; and a good labor supply. Active competition by potential sites was excluded.

A DFAS Consolidation Task Force (CTF) evaluated sites using these criteria. All communities participating in the OEG were evaluated. Additional locations were considered based on the new criteria, especially the need to evaluate DoD facilities made redundant by the end of the Cold War.

The major elements of the new DoD plan are:

- The existing five DFAS centers at Indianapolis, In.; Denver, Colo; Columbus, and Cleveland, Ohio; and Kansas City, Mo. are retained. They are the nerve centers of DoD financial operations with thousands of skilled workers and millions of transactions per year. Moving them would have adversely impacted customer service and other financial reforms.
- More than the five sites were necessary. Without additional sites, some or all of the DFAS centers would face the severe disruption of trying to absorb the functions of many closed facilities. This again would undermine the DoD's broader financial agenda.
- 25 sites was the best DFAS structure. Selecting 25 sites will allow the department to integrate service and consolidate systems most rapidly, and to prevent disruption at the major centers. Too few sites would have made the absorption of people and functions excessively difficult; too many would have degraded the goals of consolidation and streamlining.

This new finance and accounting structure will simplify procedures and reduce the time required to introduce new technology and business practices, while continuing to foster improvements. It will allow DoD to eliminate management layers and restructure to meet changes in mission and customer needs—supporting President Clinton's goal of creating a government that works better and costs less.

-END-

page 2

Agency Regional Offices
Department of Education

Regional Office

Region I
Region II
Region III
Region IV
Region V
Region VI
Region VII
Region VIII
Region IX
Region X

Location

Boston, MA
New York, NY
Philadelphia, PA
Atlanta, GA
Chicago, IL
Dallas, TX
Kansas City, MO
Denver, CO
San Francisco, CA
Seattle, WA

Discussion:

The REGO II review for the Department of Education has not been completed.

Agency Regional Offices
U.S. Department of Energy

1. Departmental Operations Offices

	Location
Regional Office	Albuquerque, NM
Albuquerque Operations Office	Chicago, IL
Chicago Operations Office	Golden, CO
Golden Field Office	Idaho Falls, ID
Idaho Operations Office	Las Vegas, NV
Nevada Operations Office	Oak Ridge, TN
Oak Ridge Operations Office	Oakland, CA
Oakland Operations Office	Richland, WA
Richland Operations Office	Aiken, SC
Savannah River Operations Office	

Discussion: As part of a REGO II effort to improve Departmental operations and efficiency through a strategic reorganization, staffing and support services at most of the Department's operations offices will be reduced starting in FY 1996 through FY 2000. In addition, a number of field offices will be closed, including the Metarie Site Office in New Orleans, LA; the Laramie Project Office in Wyoming; and the Naval Petroleum Reserves offices in Bakersfield, CA and Casper, WY. DOE announced earlier this month that it will reduce its total non-headquarters staff by 21 percent over the next five years.

2. Federal Energy Regulatory Commission (FERC)

	Location
Regional Office	Atlanta, GA
Atlanta Regional Office	Chicago, IL
Chicago Regional Office	New York, NY
New York Regional Office	Portland, OR
Portland Regional Office	San Francisco, CA
San Francisco Regional Office	

Discussion: No changes to the FERC's regional office structure has been proposed in REGO II.

3. Office of Energy Efficiency and Renewable Energy

Regional Office	Location
Atlanta Support Office	Atlanta, GA
Boston Support Office	Boston, MA
Chicago Support Office	Chicago, IL
Dallas Support Office	Dallas, TX
Denver Support Office	Denver, CO
Kansas City Support Office	Kansas City, MO
New York Support Office	New York, NY
Pacific Area Support Office	Honolulu, HA
Philadelphia Support Office	Philadelphia, PA
San Francisco Support Office	Oakland, CA
Seattle Support Office	Seattle, WA

Discussion: REGO II has led to proposed changes in the structure of the regional support office structure. As part of the Secretary's strategic alignment of the Department the Denver Support Office would be co-located with the Golden Field Office and four other support offices would be closed -- Dallas, Kansas City, San Francisco, and New York.

4. Power Marketing Administrations (PMAs)

Regional Office	Location
Alaska Power Administration (HQ)	Juneau, AK
Bonneville Power Administration (HQ)	Portland, OR
Southeastern Power Administration (HQ)	Elberton, GA
Southwestern Power Administration (HQ)	Tulsa, OK
Western Area Power Administration (HQ)	Golden, CO

Discussion: The sale of all of the PMAs except the Bonneville Power Administration is a REGO II proposal. The Administration has transmitted a bill to Congress which proposes to implement this REGO II initiative. The sale of a PMA would involve the transfer of its offices from Federal to non-Federal authorities.

Agency Regional Offices
Department of Health and Human Services

1. Office of the Secretary

HHS has Regional Administrative Support Centers (RASCs) located in each of the ten standard Federal regions listed in circular A-105 (Boston, New York, Philadelphia, Atlanta, Chicago, Dallas, Kansas City, Denver, San Francisco, and Seattle).

Discussion

As of October 1, 1995, all ten RASCs will be closed and RASC functions and FTE will be devolved to HHS' operating and staff divisions. This results in a net savings of 44 FTE. HHS will also be reviewing the regional office needs of the operating divisions, although final decisions have not yet been made.

Agency Regional Offices

Department of Housing and Urban Development

The Department of Housing and Urban Development has no regional offices. HUD's former regional offices were abolished over a year ago, as one of HUD's initial steps in the Reinventing Government, phase I (REGO I). This change now delegates line authority from all Assistant Secretaries with field staff directly to field program managers.

Department of Housing and Urban Development

Senior Level Positions

HUD's senior level staff on-board has dropped from 1,660 at the end of 1992 to 1,619 as of May 13, 1995. HUD expects to reach the target level of 1,606 by September 30, 1995, through additional attrition expected in 1995 from deferred buyouts departures, and other separation. Senior level positions are being strictly controlled by means of a hiring freeze, with exceptions to be granted only by the Deputy Secretary.

Agency Regional Offices
Department of the Interior

1. Minerals Management Service:

<u>Regional office</u>	<u>Location</u>
Alaska OCS Regional Office	Anchorage, AK
Gulf of Mexico OCS Regional Office	Metairie, LA
Pacific OCS Regional Office	Camrillo, CA
Denver Office	Denver, CO

Under REGO II, MMS would be abolished effective October 1, 1998. Remaining federal responsibilities will be transferred elsewhere in the Department of Interior. These four regional offices may remain after the transfer. However, the Denver Office would be much smaller.

2. Office of Surface Mining and Reclamation:

<u>Regional office</u>	<u>Location</u>
Regional Coordinating Center (RCC)	
Appalachian RCC	Pittsburgh, PA
Western RCC	Denver, CO
Mid-Continent RCC	Alton, IL

3. Bureau of Reclamation

<u>Regional office</u>	<u>Location</u>
Pacific Northwest Regional Office	Boise, ID
Mid-Pacific Regional Office	Sacramento, CA
Lower Colorado Regional Office	Boulder City, NV
Upper Colorado Regional Office	Salt Lake City, UT
Great Plains Regional Office	Billings, MT

4. U.S. Geological Survey.

Regional office

Eastern Region
Central Region
Western Region

Location

Reston, VA
Denver, CO
Menlo Park, CA

5. Bureau of Mines:

Regional office

Field Operations Center (FOC)

Western FOC
Intermountain FOC
Alaska FOC

Location

Spokane, WA
Denver, CO
Juneau, AK

Under REGO II, the Alaska and Western Field Operations Centers are scheduled to close by the end of FY 1996.

6. Fish and Wildlife Service:

Regional office

Region 1
Region 2
Region 3
Region 4
Region 5
Region 6
Region 7

Location

Portland, OR
Albuquerque, NM
Minneapolis/St. Paul, MN
Atlanta, GA
Hadley, MA
Denver, CO
Anchorage, AK

7. National Biological Service:

Regional office

Western Region
Mid-Continent Region
Southern Region
Eastern Region

Location

Seattle, WA
Denver, CO
Lafayette, LA
Leestown, WV

8. National Park Service:

Regional office
(Field Director Offices)

Northeast
Southeast
Central
Intermountain West
Western
Alaska
National Capital

Location

Philadelphia, PA
Atlanta, GA
Omaha, NE
Denver, CO
San Francisco, CA
Anchorage, AK
Washington, D.C.

9. Bureau of Indian Affairs:

Regional office
(Area Office)

Aberdeen Area Office
Albuquerque Area Office
Anadarko Area Office
Billings Area Office
Eastern Area Office
Juneau Area Office
Minneapolis Area Office
Muskogee Area Office
Navajo Area Office
Phoenix Area Office
Portland Area Office
Sacramento Area Office

Location

Aberdeen SD
Albuquerque, NM
Anadarko, OK
Billings, MT
Arlington, VA
Juneau, AK
Minneapolis, MN
Muskogee, OK
Gallup, MN
Phoenix, AZ
Portland, OR
Sacramento, CA

1. Bureau of Prisons

Regional Office

Location

Northeast Regional Office	US Customs House, 7th Floor 2nd & Chestnut Streets Philadelphia, PA 19106-2912
Mid-Atlantic Regional Office	Suite 100-N 10010 Junction Drive Annapolis Junction, MD 20701-0001
Southeast Regional Office	523 McDonough Boulevard SE Atlanta, GA 30315-4423
North Central Regional Office	Gateway Complex, Inc. 4th and State Avenue Kansas City, KS 66101-0001
South Central Regional Office	Suite 300 4211 Cedar Springs Road Dallas, TX 75219-2602
Western Regional Office	3rd Floor 7950 Dublin Boulevard Dublin, CA 94568-4106

Discussion:

The Department's REGO II review did not result in proposed changes to the Bureau of Prison's regional structure.

2. Immigration and Naturalization Service

Regional Office

Location

Eastern Regional Office

Room 301
70 Kimball Avenue
South Burlington, VT 05403-6813

Central Regional Office

7701 N. Stemmons Freeway
Dallas, TX 75247

Western Regional Office

24000 Avila Road
Laguna Niguel, CA 92677

Discussion:

The Department's REGO II review did not result in proposed changes to the Immigration and Naturalization Service's regional structure.

Agency Regional Offices

Department of Labor

The programs and activities of the Department of Labor (DOL) are administered through a broad network of regional offices. Many agencies use the standard ten Federal regions. The remainder of the major programs use an area and/or district office network geographically dispersed to correspond to the populations or groups served by those programs.

Some agencies have reduced the number of regional offices based on DOL's initial steps in the Reinventing Government, Phase I (REGO I). These changes are reflected in the locations reported here. The REGO II review has not led to any additional proposed changes in the structure of regional offices.

Agency Regional Offices

Department of Labor

1. Employment and Training Administration:

<u>Regional office</u>	<u>Location</u>
Standard 10 Federal regional office cities	Boston New York Philadelphia Atlanta Chicago Dallas Kansas City Denver San Francisco Seattle

Discussion

The REGO II review has not led to any proposed changes in the structure of regional offices.

2. Employment Standards Administration:

<u>Regional office</u>	<u>Location</u>
Standard 10 Federal regional office cities for all but Wage and Hour	Boston New York Philadelphia Atlanta Chicago Dallas Kansas City Denver San Francisco Seattle

Wage and Hour

Boston
 New York
 Philadelphia
 Atlanta
 Chicago
 Dallas
 Kansas City
 San Francisco

Discussion

The REGO II review has not led to any proposed changes in the structure of regional offices.

3. Occupational Safety and Health Administration:**Regional office****Location**

Standard 10 Federal regional
 office cities

Boston
 New York
 Philadelphia
 Atlanta
 Chicago
 Dallas
 Kansas City
 Denver
 San Francisco
 Seattle

Discussion

The REGO II review has not led to any proposed changes in the structure of regional offices.

4. Mine Safety and Health Administration:

<u>Regional office</u>	<u>Location</u>
Coal Mine Safety and Health	Norton, VA Denver, CO Vincennes, IN Pikesville, KY Barbourville, KY Madisonville, KY Mount Hope, WV Morgantown, WV Wilkes Barre, PA New Stanton, PA

Metal and Nonmetal Mine Safety

Mars, PA Birmingham, AL Duluth, MN Dallas, TX Denver, CO Vacaville, CA

Discussion

The REGO II review has not led to any proposed changes in the structure of regional offices.

5. Bureau of Labor Statistics:

<u>Regional office</u>	<u>Location</u>
	Boston New York Philadelphia Atlanta Chicago Kansas City Dallas

Discussion

The REGO II review has not led to any proposed changes in the structure of regional offices.

6. Pension Welfare Benefits Administration:

Regional office

Location

- Boston
- New York
- Philadelphia
- Atlanta
- Cincinnati
- Chicago
- Kansas City
- Dallas
- Los Angeles
- San Francisco

Discussion

The REGO II review has not led to any proposed changes in the structure of regional offices.

7. Office of Labor-Management Standards:

Regional office

Location

- Boston
- New York
- Philadelphia
- Washington, DC
- Atlanta
- Cleveland
- Chicago
- Kansas City

Dallas
San Francisco

Discussion

The REGO II review has not led to any proposed changes in the structure of regional offices.

8. Veterans Employment and Training Service:

<u>Regional Office</u>	<u>Location</u>
Standard 10 Federal regional office cities	Boston New York Philadelphia Atlanta Chicago Dallas Kansas City Denver San Francisco Seattle

Plus a Director for Veterans' Employment and Training in each State, Washington, DC, and Puerto Rico.

Discussion

The REGO II review has not led to any proposed changes in the structure of regional offices.

9. Departmental Management:

Regional office

Standard 10 Federal regional office cities for:
 Office of Congressional and Intergovernmental Affairs;
 Office of Public Affairs;
 Office of the Assistant Secretary for Administration and Management; and
 Women's Bureau

Location

Boston
 New York
 Philadelphia
 Atlanta
 Chicago
 Dallas
 Kansas City
 Denver
 San Francisco
 Seattle

Solicitor

Boston
 New York
 Philadelphia
 Atlanta
 Chicago
 Dallas
 Kansas City
 San Francisco

Adjudication

Boston
 Norfolk
 Pittsburgh
 Camden, NJ
 Cincinnati
 New Orleans
 San Francisco
 Long Beach, CA

Directorate of Civil Rights

Boston
 New York
 Philadelphia
 Atlanta
 Chicago
 Dallas

Kansas City
Denver
San Francisco

Discussion

The REGO II review has not led to any proposed changes in the structure of regional offices.

AGENCY REGIONAL OFFICE'S
Department of Transportation

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BUREAU

LOCATION

Standard Regional Offices

Boston, MA
New York, NY
Atlanta, GA
Chicago, IL
Kansas City, MO
Dallas/Ft. Worth, TX
Denver, CO
San Francisco, CA
Seattle, WA

U.S. Coast Guard Districts

Boston, MA
Portsmouth, VA
Miami, FL
New Orleans, LA
St. Louis, MO
Long Beach, CA
Seattle, WA
Juneau, AK
Honolulu, HI
Cleveland, OH

FAA Regional Offices

Boston, MA
New York, NY
Ft. Worth, TX
Seattle, WA
Kansas City, MO
Chicago, IL
Atlanta, GA
Los Angeles, CA
Anchorage, AK

Federal Highway Administration

Albany, NY
 Baltimore, MD
 Atlanta, GA
 Homewood, IL
 Ft. Worth, TX
 Kansas City, MO
 Lakewood, CO
 San Francisco, CA
 Portland, OR

Federal Railroad Administration

Cambridge, MA
 Philadelphia, PA
 Atlanta, GA
 Chicago, IL
 Hurst, TX
 Kansas City, MO
 Sacramento, CA
 Vancouver, WA

National Highway Traffic Safety Administration

Cambridge, MA
 White Plains, NY
 Hanover, MD
 Atlanta, GA
 Homewood, IL
 Ft. Worth, TX
 Kansas City, MO
 Denver, CO
 San Francisco, CA
 Seattle, WA

Maritime Administration

San Francisco, CA
 New Orleans, LA
 Des Plaines, IL
 Kings Point, NY
 Norfolk, VA

Discussion

The Rego II review has not led to any specific proposal to change the field office structure.

Agency Regional Offices
Department of the Treasury

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1. U.S. Customs Service

<u>Regional office</u>	<u>Location</u>
New York, NY	6 World Trade Ctr New York, NY 10048
North Central:	
Chicago, IL	55 E. Monroe St., Chicago, IL 60603
Cleveland, OH	55 Erie View Plz., Cleveland, OH 44114
Detroit, MI	477 Michigan Ave., Detroit, MI 48226
Duluth, MN	209 Federal Bldg. Duluth, MN 55802
Great Falls, MT	300 2d Ave. S. Great Falls, MT 59401
Milwaukee, WI	6269 Ace Industrial Dr. Milwaukee, WI 53237
Minneapolis, MN	110 S. 4th St. Minneapolis, MN 55401
Pembina, ND	Post Office Bldg. Pembina, ND 58271
St. Louis, MO	7911 Forsyth Bldg St. Louis, MO 63105

North East:

Baltimore, MD

40 S. Gay St.
Baltimore, MD 21202

Boston, MA

10 Causeway St.
Boston, MA 02222

Buffalo, NY

111 W. Huron St.
Buffalo, NY 14202

Ogdensburg, NY

127 N. Water St.
Ogdensburg, NY 13669

Philadelphia, PA

2d & Chestnut Sts.
Philadelphia, PA 19106

Portland, ME

312 Fore St.
Portland, ME 04112

Providence, RI

49 Pavillion Ave.
Providence, RI 02905

St Albans, VT

Main & Stebbins Sts
St. Albans, VT**South Central:**

Mobile, AL

150 N. Royal
Mobile, AL 36602

New Orleans, LA

423 Canal St
New Orleans, LA 70130**Southeast:**

Charleston, SC

200 E. Bay St
Charleston, SC 29401

Charlotte, NC	1801-R Crossbeam Dr Charlotte, NC 28217
Miami, FL	909 SE, 1st Ave. Miami, FL 33131
Norfolk, VA	77 SE, 5th St. Miami, FL 33131
St. Thomas, VI	101 E. Main St. Norfolk, VA 23510
San Juan, PR	U.S. Federal Bldg., Veterans, Dr. St. Thomas, VI 60801
Savannah, GA	U.S. Customhouse (P.O. Box 2112) San Juan, PR 00903
Tampa, FL	1 E. Bay St. Savannah, GA 31401
Southwest:	4430 E. Adams Dr. Tampa, FL 33605
Dallas/Fort Worth, TX	1205 Royal Ln., Dallas/Fort Worth Airport, 75261 Dallas/Forth Worth, TX 75261
El Paso, TX	Bridge of the Americas (P.O. Box 9516) El Paso, TX 79985
Houston, TX	5850 San Flipe St 1717 E. Loep Houston, TX 77019
Laredo, TX	Lincoln-Juarez Bridge Laredo, TX 78044

Nogales, AZ	International and Terrace Sts Nogales, AZ 85621
Port Arthur, TX	4550 75th Ave. Port Arthur, TX 77642
Pacific:	
Anchorage, AK	605 W. 4th Ave. Anchorage, AK 99501
Columbia Snake, OR	511 NW. Broadway Columbia Snake, OR 97209
Honolulu, HI	335 Merchant St. Honolulu, HI 96806
Los Angeles, CA	Suite 705, 1 World Trade Ctr. Long Beach, CA 90831
Los Angeles/Long Beach, CA	300 S. Ferry St. San Pedro, CA 90731
San Diego, CA	880 Front St. San Diego, CA 92188
San Francisco, CA	555 Battery St. San Francisco, CA 94718
Seattle, WA	1000 2d Ave. Seattle, WA 97104

Discussion

Regions will be abolished and districts as a management layer will be eliminated. Affected staffs will be retained and reinvested in field operations and strategic initiatives. District offices are located within ports-of-entry and share resources with the ports. All resources and services related to port-of-entry operations will remain. Entries will be exactly where they are today, cargo will be cleared exactly where it is today, and passengers and conveyances will be processed at the same locations as today. Employees who perform these services will continue to carry out their responsibilities at the same locations as today.

2. Internal Revenue Service

Regional Office:Location

PRE-REGO II Regional Offices

Chicago	Chicago
Central	Cincinnati
Mid Atlantic	Philadelphia
North Atlantic	New York (Manhattan)
Southeast	Atlanta
Southwest	Dallas
Western	San Francisco

REGO II - Consolidation of Regional Offices

New Regional Offices:

Northeast	Manhattan
Southeast	Atlanta
Mid-States	Dallas
Western	San Francisco

Discussion

IRS, in order to streamline the management of its regional operations, is consolidating the seven existing regional headquarters into four offices by October 1, 1995. IRS is also reducing the number of districts from sixty-three, with the district office remaining in thirty-three of the existing district headquarters cities, and the number of regions from seven to four, with the regional office remaining in four of the existing regional headquarters cities by September 30, 1996.

**Agency Regional Offices
Department of Veterans Affairs**

1. Veterans Health Administration

Regional Office

Eastern Area
Central Area
Southern Area
Western Area

Location

Fort Howard, MD
Ann Arbor, MI
Jackson, MS
San Francisco, CA

Discussion

REGO II contains no proposals that would affect the regional structure of the Veterans Health Administration. However, the Administration is proposing restructuring the VHA health care system into 16 vertically integrated service networks that will replace the current four-part regional structure..

2. Veterans Benefits Administration

Regional Office

Eastern Area
Central Area
Southern Area
Western Area

Location

Baltimore, MD
Livonia, MI
Jackson, MS
San Francisco, CA

Discussion

REGO II contains no proposals that would affect the regional structure of the Veterans Benefits Administration.

3. National Cemetery System

Regional Office

- Eastern Area
- Southern Area
- Western/Central Area

Location

- Philadelphia, PA
- Atlanta, GA
- Denver, CO

Discussion

REGO II contains no proposals that would affect the regional structure of the National Cemetery System.

Agency Regional Offices
U.S. Army Corps of Engineers

1. U.S. Army Corps of Engineers

<u>Regional office</u>	<u>Location</u>
New England Division	Boston, MA
North Atlantic Division	New York, NY
South Atlantic Division	Atlanta, GA
North Central Division	St. Paul, MN
Ohio River Division	Cincinnati, OH
Lower Mississippi Valley Division	Vicksburg, MS
Missouri River Division	Omaha, NE
Southwestern Division	Dallas, TX
North Pacific Division	Portland, OR
South Pacific Division	San Francisco, CA
Huntsville Division	Huntsville, AL
Pacific Ocean Division	Honolulu, HI

Discussion

REGO II did not affect the regional office structure.

Agency Regional Offices
Environmental Protection Agency

<u>Regional office</u>	<u>Location</u>
Region 1	Boston, MA
Region 2	New York, NY
Region 3	Philadelphia, PA
Region 4	Atlanta, GA
Region 5	Chicago, IL
Region 6	Dallas, TX
Region 7	Kansas City, MO
Region 8	Denver, CO
Region 9	San Francisco, CA
Region 10	Seattle, WA

Discussion

The REGO II review has not resulted in any proposed changes.

Agency Regional Offices
Federal Emergency Management Agency

<u>Regional Office</u>	<u>Location</u>
I	Boston, Massachusetts
II	New York, New York
III	Philadelphia, Pennsylvania
IV	Atlanta, Georgia
V	Chicago, Illinois
VI	Denton, Texas
VII	Kansas City, Missouri
VIII	Denver, Colorado
IX	San Francisco, California
X	Bothell, Washington

Discussion: FEMA's National Performance Review (NPR) phase II team recommended that over the long term, regional offices should be sized and resourced accordingly to risk. In support of this effort, a long-term strategic staffing process was recommended.

**Agency Regional Offices
GENERAL SERVICES ADMINISTRATION**

Regional Office

New England Region
 Northeast and Caribbean Region
 Mid-Atlantic Region
 National Capital Region
 Southeast Sunbelt Region
 Great Lakes Region
 The Heartland Region
 Greater Southwest Region
 Rocky Mountain Region
 Pacific Rim Region
 Northwest/Arctic Region

Location

Boston, Massachusetts
 New York, New York
 Philadelphia, Pennsylvania
 Washington, District of Columbia
 Atlanta, Georgia
 Chicago, Illinois
 Kansas City, Missouri
 Fort Worth, Texas
 Denver, Colorado
 San Francisco, California
 Auburn, Washington

Discussion

The General Services Administration (GSA) does not have any regional structure reviews underway that have been formally agreed to in the REGO II process.

GSA, however, is an active member of the President's Management Council (PMC) Subcommittee on Field Office Review. As a result, we are working with the other agencies on this group, which is chaired by the Department of Agriculture to examine three business opportunities: horizontal streamlining, i.e., consolidating offices serving similar customers, performing similar functions, and/or delivering complementary services; vertical streamlining, i.e., minimizing management layers between headquarters and field office operations; and, information technology, i.e., overcoming barriers of time and distance and permitting fundamental redesign of organization and service delivery mechanisms.

To exploit these opportunities the GSA is very active in several PMC demonstration projects including interactive, multi-media computers stations, the Cooperative Administrative Support Units program (GSA is the founder and coordinator of this program), and we are evaluating ways to franchise and/or privatize administrative support services. Further, as a result of the NPR, GSA has increased its program of direct delivery by vendors, and provided electronic access to multiple awards schedules.

Discussion (Continued)

In addition, GSA is diligently working to reduce organizational layers in field offices by cutting unnecessary regulations and delegating more authority to field offices in the Public Building Service (PBS), especially in our Region-wide laboratories in Denver and Philadelphia. We are focusing on reducing overhead nationwide in all programs which parallels the vertical streamlining goals of the FMC.

GSA will continue to review the potential for horizontal streamlining as response to other Government agencies downsizing efforts. GSA, as a smart buyer and business arm of client agencies must be strategically sensitive to their restructuring efforts and final decisions in this area.

Last, GSA does have underway reviews of all of our business lines. Decisions on what GSA does and how we do it could lead to field structure reviews or adjustments in the future.

Agency Regional Offices
National Aeronautics and Space Administration

Under REGO II realignment, NASA has committed to reducing civil service employment levels from approximately 23,000 in 1995 to approximately 17,500 by the year 2000. To reach this goal, NASA has proposed the following measures:

Regional Office

Location

Ames Research Center

Mountain View, CA

Discussion: Airspace operations systems and astrobiology center, specializing in information technology. Proposed realignment under REGO II would establish a science institute for astrobiology; retain core in-house aeronautics research capability; consolidate management of aeronautical facilities with Langley Research Center facilities; transfer Moffett airfield; transfer aircraft to Dryden Flight Research Center.

Dryden Flight Research Center

Edwards, CA

Discussion: Flight research center, specializing in atmospheric flight operations. Under REGO II realignment, Dryden would assume flight operations management of all NASA aircraft except those in support of the Space Shuttle.

Goddard Space Flight Center

Greenbelt, MD

Discussion: Earth science/physics and astronomy center. Proposed REGO II realignment would transfer Goddard Institute for Space Studies to a university/consortium; consolidate management of the Suborbital program at Goddard; reduce cost of Wallops Flight Facility operations and investigate additional cost-sharing opportunities; increase partnerships with NOAA; consolidate management of communications infrastructure at Johnson Space Center; Privatize space science data archiving and distribution; reduce in-house spacecraft development; transfer aircraft to Dryden Flight Research Center.

Jet Propulsion Laboratory Pasadena, CA

Discussion: Planetary science and exploration center. REGO II realignment proposals include further study of commercialization of ground tracking of low-Earth orbit spacecraft; reduction in in-house spacecraft development.

Johnson Space Center Houston, TX

Discussion: Human space exploration and astro materials center. Proposed REGO II realignment would transfer management of White Sands Test Facility to Stennis Space Center; assign management of communications infrastructure to Johnson Space Center; establish institutes for biomedical and planetary science; streamline engineering and facilities (no personnel transfers).

Kennedy Space Center Kennedy Space Center, FL

Discussion: Space launch center. Under REGO II realignment Shuttle contractors would be consolidated, and the Kennedy Space Center would assume management of Atlas-class expendable launch vehicles from Lewis Research Center.

Langley Research Center Hampton, VA

Discussion: Airframe systems, structures and materials, aerodynamics, and atmospheric science center. Under REGO II realignment, Langley would provide program analysis and evaluation function for NASA; convert atmospheric science activities into an institute; and transfer aircraft to Dryden Flight Research Center.

Lewis Research Center Cleveland, OH

Discussion: Aeropropulsion and turbomachinery center. REGO II realignment would transfer Atlas-class expendable launch vehicle management to Kennedy Space Center; maintain Plum Brook power plant on a fully-reimbursable basis; establish an institute for microgravity and space power; close the rocket engine test facility; transfer aircraft to Dryden Flight Research Center.

Marshall Space Flight Center Huntsville, AL

Discussion: Space transportation development and microgravity research center. REGO II proposals include further study of transfer of payload operations to Johnson Space Center; further study of establishing an institute for science, including hydrology; mothballing the Technology Test Bed; providing technical leadership in large optical systems/mirrors.

Stennis Space Center Stennis Space Center, MS

Discussion: Propulsion test center. Under REGO II realignment, Stennis would assume management of White Sands Test Facility from Johnson Space Center; manage all future rocket propulsion testing; and pursue National Propulsion Test Alliance.

NASA Headquarters Washington, DC

Discussion: Under proposed REGO II realignment, NASA Headquarters would undergo a 50 percent staffing reduction from FY 1993 levels; and align selected program and functional responsibilities to field centers.

**Agency Regional Offices
Nuclear Regulatory Commission**

Regional Office

- Region 1
- Region 2
- Region 3
- Region 4

- Location
King of Prussia, PA
Atlanta, GA
Lisle, IL
Arlington, TX

Discussion: During 1994, the Commission eliminated one regional office by combining the Region V office (Walnut Creek, CA) with the Region IV office (Arlington, TX). The Commission also closed the Uranium Recovery Field Office (Golden, CO) during 1994. The Commission continues to review the appropriate alignment of function between its Headquarters (Rockville, MD) and its regional offices.

**Agency Regional Offices
U.S. Office of Personnel Management**

Agency-level (As of March, 1995)

<u>Regional Office</u>	<u>Location</u>
OPM Regional Office	Philadelphia, PA
OPM Regional Office	Atlanta, GA
OPM Regional Office	Chicago, IL
OPM Regional Office	Dallas, TX
OPM Regional Office	San Francisco, CA

Discussion

The five existing OPM regional offices were dissolved as of March 27, 1995. The positions of Regional Director and Deputy Regional Director, as well as dedicated regional office staff positions, were eliminated. OPM presence, however, is maintained at these locations by redesignating them "Service Centers", along with the existing network of OPM Service Centers nationwide. This action was taken as part of OPM's REGO II streamlining and downsizing effort. It was specifically targeted at reducing the size and number of personnel in management and overhead activities. The Service Centers now number 24 and provide a range of OPM employment services to the public as well as general personnel advisory and assistance services to other Federal agencies.

The five former regional office sites will, in addition, provide merit systems oversight and effectiveness services to Federal agencies, implementing OPM's plan for continued strong attention to preservation and protection of the merit system.

Agency Regional Offices

Railroad Retirement Board

Regional Office

Location

Railroad Retirement Board Regional Offices

Atlanta
Philadelphia
Cleveland
Kansas City
Oakland

Discussion:

NPR's recommendation to restructure the management of railroad industry benefits programs has been deferred indefinitely, and the Railroad Retirement Board has committed to acting on a series of management improvements.

US SMALL BUSINESS ADMINISTRATION
Regional Offices

Region I	Boston	Boston, Massachusetts
	Discussion:	The RBCO II proposal includes the collocation of the Boston Regional Office with the Boston District Office and the closing of the Springfield, MA Branch Office.
Region II	New York	New York, New York
	Discussion:	The New York Regional Office is already collocated with the New York District Office. The RBCO II proposal includes the closing of the Elmira, NY Branch Office, four Post-of-Duty stations (Camden, NJ, Albany, NY, St. Croix and St. Thomas Virgin Islands) and the conversion of the Melville Branch Office to a LowDoc Loan Processing Center.
Region III	Philadelphia	Philadelphia, Pennsylvania
	Discussion:	The Philadelphia Regional Office is already collocated with the Philadelphia District Office. The RBCO II proposal includes the conversion of the Wilmington, DE Branch Office to a district office, and the closing of three branch offices (Harrisburg and Wilkes-Barre, PA, and Charleston, WV).
Region IV	Atlanta	Atlanta, Georgia
	Discussion:	The RBCO II proposal includes the collocation of the Atlanta Regional Office with the Atlanta District Office, and the

Page 2 SRA

Region IV

Atlanta Continued

closing of the Gulfport, MS Branch Office and the Tampa, FL Post-of-Duty Station.

Region V

Chicago

Chicago, Illinois

Discussion:

The REGO II proposal includes the collocation of the Chicago Regional Office with the Chicago District Office, the closing of the Columbus, OH District Office, and three branch offices (Springfield, IL, Marquette, MI, and Cincinnati, OH), and the conversions of the Milwaukee, WI Branch Office to a district office, and the Madison, WI District Office to a LowDoc Loan Processing Center.

Region VI

Dallas

Dallas, Texas

Discussion:

The REGO II proposal includes the collocation of the Dallas Regional Office with the Dallas District Office, the closing of two district offices (Harlingen and Lubbock, TX), the Corpus Christi, TX Branch Office and three Post-of-Duty stations (Shreveport, LA, Austin and Marshall, TX).

Region VII

Kansas City

Kansas City Missouri

Discussion:

The Kansas City Regional Office is already collocated with the Kansas City District Office. The REGO II proposal includes the closing of the Cedar Rapids, IO District Office and the Springfield, MO Branch Office.

Region VIII

Denver

Denver, Colorado

Discussion:

The REGO II proposal includes the collocation of the Denver Regional Office with the Denver District Office.

Region IX

San Francisco

San Francisco, California

Discussion:

The REGO II proposal includes the collocation of the San Francisco Regional Office with the San Francisco District Office, the closing of two district offices (Fresno, and Santa Ana, CA) the Agana, Guam Branch Office and three Post-of-Duty stations (Tucson, AZ, Ventura, CA and Reno, NV). The proposal also includes the conversion of the Sacramento, CA Branch office to a LowDoo Loan Processing Center.

Region X

Seattle

Seattle, Washington

Discussion:

The REGO II proposal includes the collocation of the Seattle Regional Office with the Seattle District Office and the closing of the Spokane, WA District Office.

NOTE: All of the proposed REGO II changes will occur once SBA receives Congressional concurrences.

users/budget/wordperf/bdr

Agency Regional Offices
Social Security Administration

Regional Office

Office of Regional Commissioner
Office of Hearings and Appeals
Office of Program Integrity Review
Office of the General Counsel
Office of the Inspector General

Location

All commonly located at:

Boston, New York City, Philadelphia,
Atlanta, Chicago, Dallas, Kansas City,
Denver, San Francisco, and Seattle

Discussion:

As part of the REGO II effort, the Social Security Administration (SSA) will consolidate their 10 regional offices into five locations. This consolidation will enable SSA to streamline operations, but the choice of sites to consolidate is sensitive and have not yet been chosen.

June 23, 1995

**Senior Level Staff Reductions
Summary**

The attached table summarizes senior level staff reductions in executive branch agencies. It shows that of the 65 agencies with more than 100 FTEs, 25 cut their senior positions by at least four percent; 11 of these agencies cut senior level positions by 10 percent or more.

In February, 1993, President Clinton issued Executive Order 12389, which called for a four percent cut in executive branch agency FTE levels. The Executive Order also stated that at least 10 percent of all reductions should come from senior positions (GS 14 and above). Agencies with 100 FTEs or less were exempted from the executive order.

The number of senior positions in 19 agencies is projected to climb between December, 1992 and September, 1995. Although senior positions are projected to drop below December, 1992 levels by FY 1996-97 for two agencies, senior positions in 21 agencies either dropped by less than four percent or remained unchanged.

There are three reasons why agencies were granted a partial exemption from the executive order. First, some agencies contain priority programs that require an increase in total staffing, including senior level positions. The President's anti-crime programs is an example in the Department of Justice, which increased senior positions in law enforcement and prisons. Second, some agencies have increases in certain specialties at the GS 14-15 level that were not totally offset by decreases in other senior level staffing. The Department of Transportation, for example, had a large number of air traffic controllers promoted from GS-13 levels over the last two years that were not offset by decreases elsewhere in DOT. Third, reductions in senior staff levels in some agencies would have interfered with delivery of essential services since direct providers of such services such as doctors are included in senior staff statistics. For example, a reduction in senior positions would interfere with the Department of Health and Human Services ability to conduct research.

In total, as a result of the President's executive order, more than 4,600 senior positions (or 2.8%) are projected to be cut between December, 1992 and September, 1995.

6/23/95
14,31,56
(MAX-FTESL06)

Senior Level Staffing in Executive Branch Agencies Subject to Executive Order 12389	Dec. 92	Sept. 95	Change: 92 to 95	Pct. Change	Comments
Department of Agriculture.....	5,685	5,433	-252	-4.4%	/4
Department of Commerce.....	5,445	5,640	195	3.6%	/2
Department of Defense--Military.....	35,316	31,591	-3,725	-10.5%	
Department of Education.....	966	946	-20	-2.1%	/2
Department of Energy.....	5,266	5,532	264	5.0%	/1 /2
Department of Health and Human Services.....	9,448	9,319	-129	-1.4%	/4
Department of Housing and Urban Development.....	1,633	1,579	-54	-3.3%	
Department of the Interior.....	4,571	4,254	-317	-6.9%	
Department of Justice.....	12,314	12,471	157	1.3%	/4
Department of Labor.....	2,281	2,262	-19	-0.8%	/4
Department of State.....	4,345	4,241	-104	-2.4%	
Department of Transportation.....	19,465	19,766	303	1.6%	/3
Department of the Treasury.....	12,844	12,506	-338	-2.6%	/2
Department of Veterans Affairs.....	12,762	12,937	175	1.4%	/4

/1 Senior positions in FY 1996-97 are forecasted to drop below the December, 1992 level.
/2 This agency contains programs that include Presidential priorities which, in some cases, require an increase in the number of senior level positions.
/3 Increases in certain specialties (attorneys and air traffic controllers) at the GS 14-15 level offset decreases in other senior level staffing.
/4 Reductions in the number of senior level positions would clearly and substantially interfere with delivery of essential services or compliance with applicable law since direct providers of such services are included in senior staff statistics.

6/23/95
16.31.56
(MAX-FTESL08)

OFFICE OF MANAGEMENT AND BUDGET
Senior Level Staffing in Executive Branch Agencies
Subject to Executive Order 12389

	Dec. 92	Sept. 95	Change:		Comments
			92 to 95	Pct. Change	
Environmental Protection Agency.....	3,081	4,055	174	4.5%	/2
General Services Administration.....	1,651	1,568	-83	-5.0%	
National Aeronautics and Space Administratio....	7,212	6,543	-669	-9.3%	
Office of Personnel Management.....	510	427	-83	-16.3%	
Small Business Administration.....	559	515	-44	-7.9%	
Social Security Administration.....	2,483	2,739	256	10.3%	/4
Office of Administration.....	53	49	-4	-7.5%	
Office of Management and Budget.....	266	274	-12	-4.2%	
Office of National Drug Control Policy.....	32	24	-8	-25.0%	
Office of the United States Trade Representative....	89	96	7	7.9%	
Agency for International Development.....	1,587	1,428	-159	-10.0%	
Peace Corps.....	201	204	3	1.5%	/4
Overseas Private Investment Corporation.....	54	43	-11	-20.4%	
Corps of Engineers--Civil.....	1,348	1,217	-131	-9.7%	

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6/23/95
14-31-56
(MAX-FTESL08)

OFFICE OF MANAGEMENT AND BUDGET
Senior Level Staffing in Executive Branch
Agencies
Subject to Executive Order 12389

	Dec. 92	Sept. 95	Change: 92 to 95	Pct. Change	Comments
Armed Forces Retirement House.....	20	16	-4	-20.0%	
Arms Control and Disarmament Agency.....	83	82	-1	-1.2%	
Commodity Futures Trading Commission.....	150	140	-10	-6.7%	
Consumer Product Safety Commission.....	114	112	-2	-1.8%	
Equal Employment Opportunity Commission.....	394	394	0	0.0%	/4
Export-Import Bank of the United States.....	99	110	11	11.1%	/1 /4
Farm Credit Administration.....	182	180	-2	-1.1%	
Federal Communications Commission.....	517	563	46	8.9%	/4
Federal Election Commission.....	58	72	14	24.1%	/4
Federal Emergency Management Agency.....	493	443	-50	-10.1%	
Federal Housing Finance Board.....	44	41	-3	-6.8%	
Federal Labor Relations Authority.....	89	77	-12	-13.5%	
Federal Maritime Commission.....	60	58	-2	-3.3%	
Federal Mediation and Conciliation Service.....	202	188	-14	-6.9%	

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6/23/95
14.31.56
(MAG-FTE8L06)

OFFICE OF MANAGEMENT AND BUDGET
Senior Level Staffing in Executive Branch Agencies
Subject to Executive Order 12383

	Dec. 92	Sept. 95	Change: 92 to 95	Pct. Change	Comments
Federal Trade Commission.....	408	440	32	7.8%	/3
International Trade Commission.....	123	121	-2	-1.6%	
Interstate Commerce Commission.....	183	150	-33	-18.0%	
Merit Systems Protection Board.....	152	150	-2	-1.3%	
National Archives and Records Administration....	151	147	-4	-2.6%	/4
National Credit Union Administration.....	288	248	-40	-13.9%	
National Endowment for the Arts.....	36	35	-1	-2.8%	
National Endowment for the Humanities.....	47	47	0	0.0%	/4
National Labor Relations Board.....	664	644	-20	-3.0%	
National Science Foundation.....	439	458	19	4.3%	/4
National Transportation Safety Board.....	155	154	-1	-0.6%	
Nuclear Regulatory Commission.....	1,807	1,641	-166	-9.2%	
Office of Government Ethics.....	27	26	-1	-3.7%	
Office of Special Counsel.....	21	22	1	4.8%	/4

- /1 Senior positions in FY 1996-97 are forecasted to drop below the December, 1992 level.
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OFFICE OF MANAGEMENT AND BUDGET
Senior Level Staffing in Executive Branch Agencies
Subject to Executive Order 12389

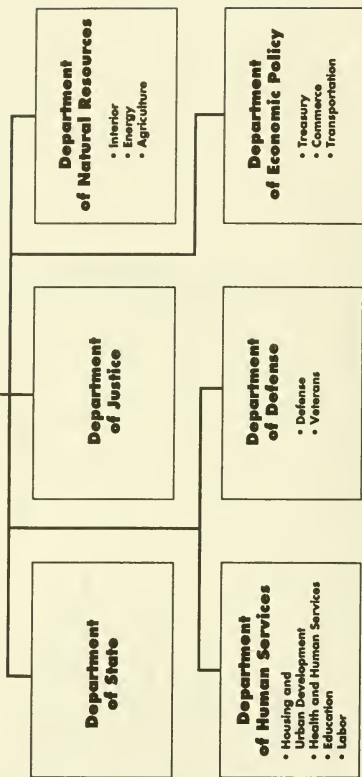
	Dec. 92	Sept. 95	Change: 92 to 95	Pct. Change	Comments
Pennsa Canal Commission.....	44	45	1	2.3%	/4
Railroad Retirement Board.....	134	126	-8	-6.0%	
Securities and Exchange Commission.....	906	1,054	146	16.1%	/3
Selective Service System.....	25	18	-7	-26.0%	
Smithsonian Institution.....	475	470	-5	-1.1%	
United States Holocaust Memorial Council.....	9	18	9	100.0%	/4
United States Information Agency.....	1,267	1,182	-85	-6.7%	
Corperation for National and Community Servi.....	49	49	0	0.0%	/2
Financial Institutions (FDIC/RTC).....	2,606	2,790	184	7.1%	/4
** Report Total **	164,614	160,174	-4,640	-2.8%	

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1991 Panetta Proposal

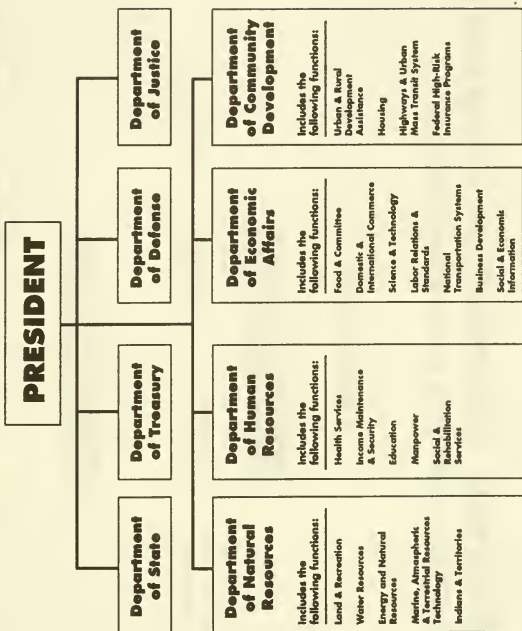
Executive Branch Reorganization

PRESIDENT

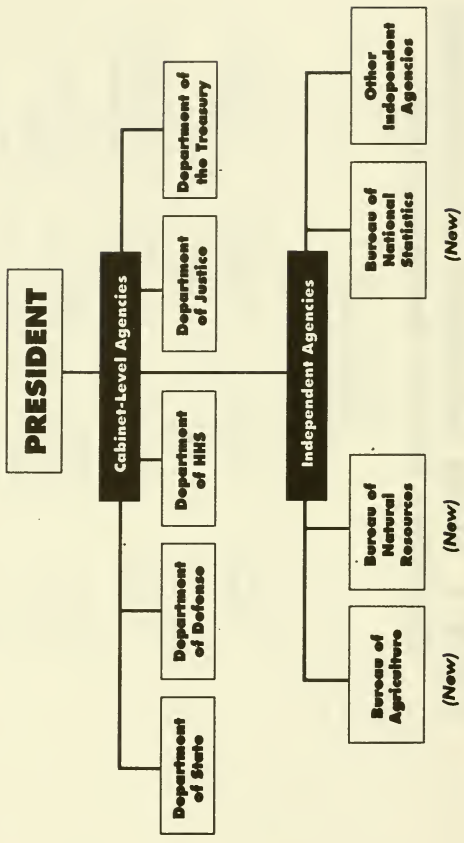


1971 Ash Council Proposal

Executive Branch Reorganization



1995 Heritage Foundation Proposal Executive Branch Reorganization



PREPARED STATEMENT OF SENATOR ABRAHAM

I appreciate the chance to share with you my views on cabinet consolidation, which I believe is crucial to balancing the budget, recapturing a proper relationship between Federal and State powers and providing much-needed tax relief to the American people.

To begin with, Mr. Chairman, I think we should keep in mind that when Theodore Roosevelt took office 94 years ago, his Cabinet had nine members. Today on the other hand, we have fourteen Cabinet Departments—not to mention hundreds of boards, agencies and commissions below the Cabinet level.

This growth in the Federal Government's size and scope has put enormous tax and debt burdens on our economy, in turn producing lower living standards and fewer job opportunities for our people.

The Federal budget in 1901 consumed just over 2 percent of total national income. Today it spends almost twenty-five cents for every dollar we produce. Measured against the size of the economy, the Federal Government is twelve times larger than it was at the turn of the century. In the meantime, a budget that routinely enjoyed surpluses of ten percent or more during Roosevelt's tenure hasn't seen the black in twenty-five years.

Mr. Chairman, in my view this history shows that big government brings both high taxes and budget deficits.

As we seek to balance the budget, we should downsize government, targeting departments and agencies whose activities are unnecessary, duplicative and simply outside Constitutional limits of Federal power.

This description fits much of the Federal Government. But Majority Leader Dole has set the standard by calling for elimination of four Cabinet Departments—Commerce, Energy, Housing and Urban Development, and Education. These four departments alone employ more than 74,000 bureaucrats and have combined budgets of \$70 billion (133 times more than the entire Federal Government spent in Roosevelt's era).

While some programs within these departments are useful, we don't need huge bureaucracies to oversee them. We should consolidate, privatize and/or devolve them to the States and localities.

Let me address each Department in turn.

The Commerce Department houses the most redundant collection of agencies in Washington. Indeed, it shares its mission with at least 71 other Federal entities. Ironically, regulating interstate commerce isn't part of this mission. That's handled by the Interstate Commerce Commission, itself a target for elimination. Commerce is a bit player in international trade as well. Ten Federal agencies are charged with promoting U.S. exports, but only a fraction of the funding is directed to Commerce. The Agriculture Department receives three-fourths.

The Commerce Department spends almost 60 percent of its \$3.6 billion budget on the National Oceanic and Atmospheric Administration (NOAA)—the nation's weather and ocean mapping service. Another \$400 million funds the notorious Economic Development Administration (EDA), a traditional source of pork barrel spending on things like docks and sewer systems.

We should break up NOAA and sell its parts or transfer them to more appropriate departments. We should eliminate the EDA. Other Commerce programs, like the Bureau of Economic Statistics, could be transferred or put in an independent statistical agency.

The same policies will help us eliminate the Energy Department; a department that literally has brought more harm than good.

During the 1970s, Federal energy policy played havoc with the energy industry—helping to prolong two national energy crises within six years. It was only after Ronald Reagan deregulated the industry that prices stabilized at reasonable levels. As the late Warren Brooks noted, deregulation eliminated an entire job market for energy bureaucrats, consultants, and reporters while it dramatically lowered energy prices for everyone else.

It also left the newly created Department of Energy with a budget focused on non-energy programs. Almost 60 percent of its annual funding—\$10 billion per year—is spent on nuclear weapons design, research, and cleanup. These programs are national security oriented, and might be better left to the DOD, perhaps with civilian oversight. Those facilities not vital to national security could be sold.

The remainder of DOE is mostly comprised of the corporate welfare programs that are roundly criticized outside the beltway. Programs like Clean Coal Technology and Energy Conservation Research subsidize our large energy companies while others, like the Naval Petroleum Reserve, compete against them. These programs could be eliminated or sold. The Strategic Petroleum Reserve alone has cost taxpayers over

\$21 billion since it was created in 1975, yet it has only been used once to offset rising oil prices—with debatable success. Selling the SPR could raise over \$10 billion.

DOE isn't the only Federal department that has failed to have a positive impact. Created in 1965 as part of Lyndon Johnson's "War on Poverty," the Department of Housing and Urban Development was charged with addressing problems in the nation's housing, especially in the inner cities. Thirty years later, home ownership rates are stagnate, homelessness is up, and our low-income housing stock, both public and private, is in worse condition than before. At the same time, many of our large inner cities actually have lost population.

Meanwhile, HUD itself has thrived. Since 1980 the number of programs the Department administers has grown from 54 to over 200 while its annual budget has grown by 400 percent. It now exceeds \$25 billion per year. Eliminating HUD will not be easy, since many of the Department's programs involve long-term obligations and commitments. Nevertheless, something needs to be done, and quickly.

First we should stop building and subsidizing over-priced ghettos, in which residents fear either to remain in their decaying dwellings or to go outside.

Second, we should convert HUD programs into block grants and vouchers, allowing tenants and Governors to make their own housing decisions.

Block grants and vouchers also could help us eliminate the Education Department, which former Secretary William Bennett denies has helped educate students. SAT scores peaked just as Washington began moving into the education field, and have declined 78 points since 1962. Since the Department was created in 1978, it has failed to reverse this trend. SAT numbers remain essentially what they were in 1978. Meanwhile the Department's budget has grown to \$33 billion. Little of this money reaches students. Only about 6 percent of all money spent in the classroom comes from Washington. But those few Federal dollars bring restrictions inhibiting local reform.

Congress should return educational control to parents and teachers by merging existing programs into block grants and vouchers, and repealing laws like Goals 2000 that create new Federal entities and controls.

New Federal entities and controls seldom cure our ills. Whether in Cabinet Departments or agencies, they stifle innovation, encourage reliance on distant bureaucrats and produce burdensome rules and taxes.

Mr. Chairman, I have only sketched the beginning of the more extensive downsizing our Federal Government requires. There are hundreds of agencies, commissions, boards, and committees that strain the resources of taxpayers nationwide.

The Interstate Commerce Commission spent years attempting to decide whether candy canes should be charged higher rates than other candy because they take up more space. In the international arena, Congress has spent \$126 billion since 1961 on development assistance. The independent Agency for International Development's mission includes over 30 different objectives, including biodiversity and reducing urban pollution. These might be notable goals, but are they the best use of our international aid funds?

Further down the list, the Swine Health Advisory Committee is charged with working to regulate the feeding of garbage and uncooked meat to pigs while the Board of Tea Experts meets annually to recommend standards for imported tea.

It's safe to say that the President who started the "Rough Riders" wouldn't recognize much of the Federal Government we have today. He certainly wouldn't understand why the American taxpayer is being asked to finance tea tastings.

I look forward to working with you and our colleagues on the committee to remove the tax and debt burden these kinds of entities put on the American public. I look forward to joining you in the important project of restoring fiscal responsibility to our budget and effective control over their lives to our States, localities and people.

Thank you.

PREPARED STATEMENT OF SENATOR FAIRCLOTH

Mr. Chairman, I would like to thank you for the opportunity to appear before the Committee to discuss the work of the Senate Task Force on Elimination of Government Agencies. Senator Dole has charged the Task Force with preparing plans for the elimination of the Departments of Commerce, Housing and Urban Development, Energy and Education. Working in close cooperation with our counterparts in the House, our goal is to introduce identical bills for the elimination of each of these Departments. The Senate Task Force will also be taking a hard look at the Departments of Labor and Transportation.

My experience with Federal bureaucracies was learned firsthand as a businessman and public servant in North Carolina. Before coming to the Senate, I spent 45

years in the private sector learning valuable lessons which I applied during the 6 years I served as Secretary of the North Carolina Department of Commerce and the 4 years I served as Chairman of the North Carolina Highway Commission. Through-out that experience, I cannot remember a time when there has been a greater interest in and a greater need to closely examine whether taxpayers are being well-served by our Nation's grand experiment in big Government.

Today, Government spending at all levels accounts for 43 percent of national income. In November 1994, the American people sent a clear message to Washington that our experiment in big government has failed. We in the 104th Congress have a unique opportunity, responsibility and mandate to break out of the old "big government" pattern. We cannot afford to simply tinker with marginal reforms, leaving the vast bulk of the Federal regulatory State in place. We must carefully measure existing agencies against constitutional first principles, and those agencies that fail the test must be eliminated—not reinvented.

I believe that the starting point of any such analysis should be the United States Constitution and the Tenth Amendment in particular. That amendment says in its entirety: "The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people."

Since last November's election the Tenth Amendment has experienced a belated rediscovery. However, for those of us who have worked in the private sector and served in State Government, the value of that Amendment was self-evident as we struggled under the ever increasing weight and cost of the over-burdening Federal bureaucracy.

Now serving in the Senate, I have not forgotten the lessons I learned in North Carolina. When analyzing the value and legitimacy of Federal agencies I consider the following three questions. First, does a Federal agency serve vital national interests? Second, could these interests be better served at the State level or by the private sector. And third, can we justify the agency in light of the current budget crisis?

This was the analysis I applied to the Department of Housing and Urban Development before I introduced S. 435 to abolish the Department. Created in 1965 as a response to the emerging urban crisis, misguided HUD policies have further contributed to the crisis. Shortly after its creation, HUD quickly became an integral part of the Nation's failed welfare system. In the past thirty years, HUD and other Departments have spent more than \$5 trillion in means-tested assistance, and yet our urban problems are worse today. This year alone HUD's budget amounts to \$26 billion.

Even more troubling, HUD has over \$200 billion in unexpired budgetary authority. HUD is the only Cabinet Department that has an Independent Counsel still probing corruption, and the current Secretary will soon have another Independent Counsel probing the circumstances of his confirmation. HUD's track record is so bad that even President Clinton briefly considered eliminating HUD after the November elections.

Having opted to reinvent HUD, President Clinton and Secretary Cisneros have failed to realize that the time has passed for such marginal reforms. The Senate Task Force is preparing legislation for HUD's elimination and has been working with various offices in both the House and Senate to assemble the best plan for abolishing HUD. We remain open to ideas and suggestions from others who are committed to the same goal of HUD's elimination.

I will speak briefly about one aspect relating to HUD, and that is the need to Reform the Federal Housing Administration. We need to take this outdated New Deal program that has failed to adapt to the modern mortgage market and turn it into one that is innovative, flexible and financially sound. A reformed FHA should enhance home ownership opportunities by targeting FHA's mortgage insurance program to those who face the greatest challenge in buying a house—lower-income, first-time home buyers.

A new FHA should leverage private sector capital and expertise, so that it can operate in a streamlined manner while taking advantage of private sector innovations. It should also work with community groups, private insurers and lenders to create mortgage programs tailored to local needs.

Let me say a brief word about the Task Force on plans to eliminate the Department of Energy. Very recently, the DOE Secretary made a last stand to save the Department. Her attempts have made it clear that the Clinton Administration is incapable of making the necessary choices and taking the necessary actions to reduce the size and scope of the Federal Government.

The announced initiative to change the Department is another case of too little, too late. The cold fact remains that the Department of Energy remains an organiza-

tion that has too many missions, with too many resources chasing too few tasks. DOE does not need to be downsized or streamlined or aligned. It needs to be closed.

I strongly believe that the elimination of the Departments of HUD, Commerce, Energy and Education should be included in the budget resolution on the Senate floor today. Republicans should not shrink from any opportunity to eliminate these Departments. To do so would send a signal exactly opposite of what we told the voters last November that we stand for real change in spending and social policy.

Finally, Mr. Chairman I would like to commend Senator Dole for his leadership on the Task Force. With his commitment to eliminating Departments targeted by the Task Force, I have more hope than ever that at long-last America will begin to get its financial house in order.

PREPARED STATEMENT OF CONGRESSMAN GUNDERSON

Thank you, Mr. Chairman, and members of the Committee for the opportunity to come before you to discuss our efforts in the House Committee on Economic and Educational Opportunities to fundamentally rethink the Federal role in the areas of education and employment policy. Despite differing committee structures in both the House of Representatives and the Senate, we must find a way to work cooperatively on a long overdue examination of the Federal role, and necessarily, the federal administrative structure, in a range of policy areas.

There are four over-arching considerations that are driving policy in the new Congress. First, we must end the unfortunate history of federal deficits that is saddling future generations of Americans with debt. Second, we need to address the desire of many of our citizens for a more limited federal government that would intrude less in a range of domestic policy areas that would be better handled by states and communities or by the private sector. Third, there is an open-minded skepticism regarding the continuing need for all of the numerous, sometimes duplicative, traditional federal programs. And fourth, there is a commitment to a more effective, streamlined, and accountable delivery of those services that should be maintained. This proposal has been framed in the context of these realities and is intended to respond to each of them.

At the same time, the federal government has a responsibility to respond to a broader context: the increasingly fierce international competition of a global economy. U.S. competitiveness in this arena rests on a three-legged stool, with commensurate federal responsibilities in each of these three areas. The first leg, tearing down barriers to trade, has seen substantial progress with the passage of the General Agreement on Tariffs and Trade (GATT) and the North American Free Trade Agreement (NAFTA). The second leg, modernization of the workplace, will require careful reexamination of federal rules and regulations that impact on private sector efforts to modernize and reorganize to become more productive, while maintaining legitimate federal involvement in important areas, such as ensuring worker safety. The third leg, ensuring a highly skilled workforce, will not be simple, but it too is essential if we are to succeed.

Strange as it may seem, the budget crisis has helped to encourage the kind of fundamental reevaluation that is necessary. Much as American business has been forced to reengineer and down-size in the 1980s and early 1990s by the threat of international competition, current fiscal pressures may serve as the necessary, if unpleasant, spur to take on this complex task.

But it is unavoidable. For if we have learned anything from the experience of U.S. corporations that have undertaken restructuring, it is that simply slashing expenditure without reexamining basic goals, missions and structures can severely impact service. It is essential that we serve the dual imperatives of eliminating duplicative or unnecessary spending while developing a more efficient and effective delivery system.

THE MERGER PROPOSAL ADDRESSES ECONOMIC REALITIES AND POLICY CONCERNS

This proposal would merge the existing Department of Education, the Department of Labor and the Equal Employment Opportunity Commission to create a new, coordinated Department responsible for workforce preparation, workplace safety and modernization and effective civil rights enforcement. It does far more than simply eliminating the Cabinet-level status of the Department of Education and the Department of Labor or the separate agency status of the Equal Employment Opportunities Commission (EEOC). Under the leadership of Chairman Bill Goodling, with whom I am working closely on this legislation, this proposal provides a new framework for the Economic and Educational Opportunities Committee to review key areas in our education and employment policy. This proposal addresses the current

budgetary, political, as well as economic, realities that determine the context in which we act.

While we are still working on the details, and we don't expect to introduce implementing legislation until the latter part of June, let me outline our basic direction. When it comes to general administrative offices, significant savings can be achieved while providing substantial benefits from improved coordination. A single Department does not need two Secretaries, two Deputy Secretaries, or as many of the other kinds of general administrative offices that exist in two Departments and a separate agency, nor does it need the duplicative staff that serves these offices. A unified leadership structure, however, would allow for the first time a truly coherent vision of workforce and workplace policy in the United States.

But serious reform must go beyond the general administrative offices and penetrate at the level of the programs and their administration. Three Undersecretaries would oversee the major offices. The Undersecretary for Workforce Preparation and Policy would be served by three Assistant Secretaries, one overseeing programs related to Basic Education, a second overseeing programs for Higher Education, and a third with responsibility for Workforce Training and Life-Long Learning. The Undersecretary for Civil Rights would oversee coordinated implementation of our laws regarding discrimination in education and the workplace. The Undersecretary for Workplace Policy would be served by two Assistant Secretaries, one with responsibility for Workplace Modernization, Reorganization and Safety, and the second overseeing Employee Benefits.

Such a fundamental reorientation of responsibilities and organization cannot be implemented by simply replacing the nameplates on the front of buildings or changing office titles, especially in the context of a need to attain substantial savings in spending on federal bureaucracy. Building on the lessons from successful corporate efforts to reengineer and downsize, our proposal synchronizes office missions with organizational goals, takes important steps in programmatic revision, consolidation, or elimination, and establishes a three-year, phased-in planning process for administrative implementation and streamlining.

Fundamental restructuring of administration means taking an outdated, bureaucratic dinosaur characterized by incoherence and inefficiency and replacing it with a Department that is prepared for its legitimate role in the 21st century. For example, it is simply inconceivable that a modern, efficient Department that takes full advantage of the information revolution, and is cognizant of proper limits on federal authority, would require the 1,000 field offices that are a part of these 3 agencies! Based on a careful evaluation of the planned restructuring, we expect that billions of dollars in administrative savings are achievable over a 7-year period. Release of a study by the General Accounting Office (GAO) documenting the precise nature of these savings is expected in June.

THE OFFICE OF WORKFORCE PREPARATION AND POLICY

The establishment of the Office for Workplace Preparation and Policy would provide coordination for the development of a coherent national framework for the preparation of a highly skilled workforce. While accomplishing this is far from simple, it is vital. There truly is an anxious class in this country. While we have the lowest jobless rate in 25 years, and many high-paying and high-productivity jobs are being created—including many in manufacturing—these positions require highly-skilled workers. This proposal would establish a seamless web of major preschool, K-12, and postsecondary programs that would be managed from this office.

The need for improved federal coordination is clear. Today, there is a huge mismatch between the basic skills encouraged by federal basic education programs and the needs of either sophisticated workforce training programs or the job market. Further, vocational education programs managed by the Department of Education are administered under one set of regulations, while youth training programs, such as those established in Job Training Partnership Act's Title II (b and c), are administered under different regulations by the Department of Labor. Another example: adult education and literacy programs are managed under one set of regulations by the Department of Education while adult training programs come with a different set of regulations from the Department of Labor. This is just the kind of nonsensical bureaucracy and waste that the American public finds so frustrating about the federal government.

The CAREERS Act of 1995, introduced this week by Subcommittee Chairman Rep. Howard "Buck" Mckee, would begin to address the programmatic confusion, consolidating over eighty separate job training funding streams into four block grants. While I am a cosponsor of this important legislation, and I have worked on and supported similar legislation for years, such reforms cannot be fully or effec-

tively implemented without also addressing underlying management structures. Administration by a single Assistant Secretary for Workforce Training and Life-Long Learning would match program changes with an effective coordination and implementation system.

At the same time, administration of basic and higher education must also be rethought. While polls show that the overwhelming majority of the American public continues to value a significant federal role in education, the public, parents and teachers also have little faith in federal prescriptiveness or regulation in this area. The current excessive federal intrusion in managing education programs needs to shift toward a federal role more focused on monitoring success and encouraging state and local accountability. In conjunction with Departmental reengineering and implementation planning, this proposal would require a comprehensive reexamination of federal regulation that would focus especially on this area and would lead to greater limits on future federal intervention.

THE OFFICE FOR CIVIL RIGHTS

The Office for Civil Rights is the second major office established under our proposal. Our proposal would consolidate in this office all federal civil rights enforcement in education and employment current handled by the Departments of Education and Labor, the Equal Employment Opportunities Commission (EEOC), and federal agencies' EEO offices. Presently, the EEOC is the agency charged with enforcement of our private employment nondiscrimination laws and forms the backbone of the Office for Civil Rights. We believe it is vital to maintain the federal priority of enforcing our nation's nondiscrimination laws in education and employment. Unfortunately, the present system of enforcing discrimination charges is broken and requires a fundamental rethinking of the charge process, not just tinkering around the edges. Current statistics from the agency support this position. In FY 1994, the EEOC received 91,189 charges of discrimination. That represents a 53% increase over FY 1990. At the end of last fiscal year, the EEOC had a pending inventory of 97,000 charges of discrimination, and it took an average of 328 days to process a charge. Considering that justice delayed is justice denied, the status quo represents anything but effective enforcement of our civil rights laws.

The reforms envisioned in our proposal would streamline management and lead to a more efficient prioritization of charges, would encourage voluntary mediation as an alternative to traditional enforcement, and would ensure that federal employees receive independent and fair hearings of their complaints. Administrative reforms should accelerate charge processing and allow for a gradual reduction in the case backlog. For example, a pilot study of voluntary mediation in four EEOC regional offices found that such efforts led to a 52% reduction in the number of cases that reached the formal—and time-consuming—investigation stage. The Commission would be retained as a Presidentially-appointed panel, but its work would be more focused, working with the Undersecretary to set long-term direction for federal civil rights policy instead of being involved in the processing of individual claims.

THE OFFICE OF WORKPLACE POLICY

The Office of Workplace Policy is the third major office established under this proposal. Within it, the Office of Employee Benefits would administer such programs as the Pension, Welfare and Benefits Administration (PWBA), the Federal Employment Compensation Act (FECA), and the Unemployment Trust Fund (UTF).

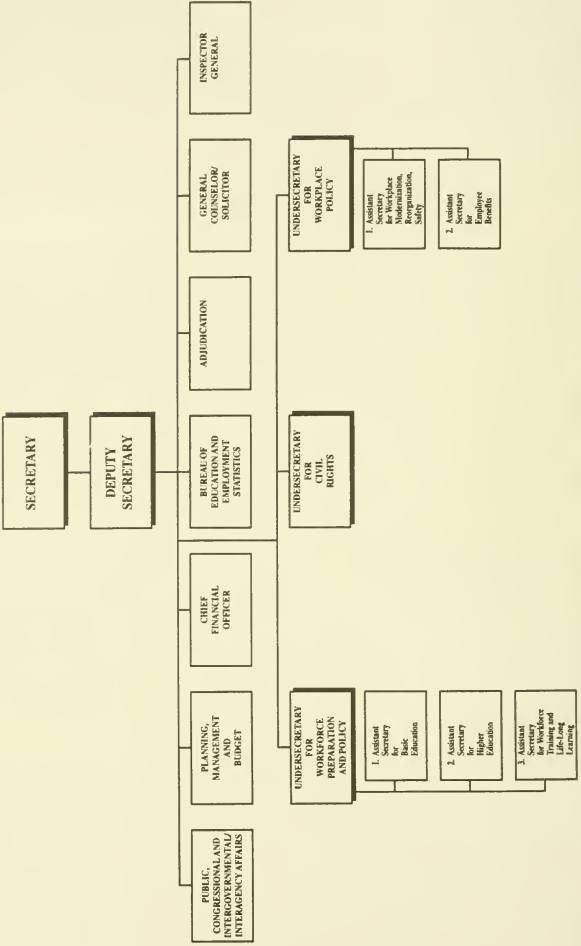
Also within this major office, the Office for Workplace Modernization, Reorganization and Safety would include the functions carried out presently by the Occupational Safety and Health Administration (OSHA) and the Mine Safety and Health Administration (MSHA). The mission of this office would be reoriented away from an obsolete and rigid, sometimes even counter-productive, one-size-fits-all, rule-based enforcement system to one that focuses on the only results that should really count: improved workplace safety. We envision greater use of flexible, voluntary and incentivebased compliance. At the same time, we envision more education and outreach to ensure that more of our nearly 7 million workplaces understand their responsibilities under our mine and workplace safety laws and how to better comply. The goal of such a change would be to accommodate the modernization and reorganization of American workplaces that employers are undergoing, while maintaining important worker protections. Legislation currently being developed in our Committee on Workforce Protections by Subcommittee Chairman Cass Ballenger would address these basic changes in mission and administration.

The kind of fundamental reevaluation and reengineering of the federal government implied in this and other proposals currently under consideration is long overdue. Everything we've seen in our work so far suggests that this kind of effort won't

be easy. But bringing our education and employment programs and laws into the modern era is essential for our nation's competitiveness in the next century.

This need not be a partisan exercise. Good ideas for fundamental reinvention of the federal government can come from both sides of the aisle. I would hope that the Clinton Administration and Democrats in the Senate and the House would be open-minded and will avoid reflexively defending the obsolete, bureaucratic structures of the status quo. We can only benefit from a truly bipartisan effort to create the kind of federal government that the American people admire for its modern, progressive structure and its service to the average taxpayer.

THE DEPARTMENT OF EDUCATION AND EMPLOYMENT



PREPARED STATEMENT OF CONGRESSMAN BROWNBACK

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

Today, I will briefly provide the rationale for eliminating these costly and meddling bureaucracies, as well as the overall thrust and reasoning of our efforts.

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

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

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

THE FOUR BUREAUCRACIES

Today, with a budget of \$3.6 billion per year and a workforce of 36,000, the Department of Commerce has evolved into "a loose collection of more than 100 programs," reports the agency's own Inspector General. The General Accounting Office reports the DOC "faces the most complex web of divided authorities . . ." sharing its "missions with at least 71 federal departments, agencies and offices." It has become the epitome of bureaucratic duplication.

In several cases, the DOC has ventured into areas where the government clearly should not be involved. Many of the Department's programs simply amount to what Labor Secretary Robert Reich refers to as "Corporate Welfare." The best way to foster commerce is not through new government programs handing out corporate grants, but through private enterprise. At a time when our government spends out more than it takes in, we can not afford to conduct these market distorting industrial policy experiments.

In some cases, such as census taking and patent and trademark licensing, the DOC serves necessary functions which will be preserved.

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

We believe that education in America is the constitutional responsibility of the states, the social responsibility of communities and the moral responsibility of fami-

lies. Our goal is to return the important education decisions to families, communities and states where they belong.

The Department of Energy was created during a time of crisis in 1977. The long lines at the gas stations which prompted DOE's creation were more a result of government action through price and allocation controls, than market shortage. In the words of President Reagan, "the country suffered not from a shortage of energy but from a surplus of government." Since the passing of the energy crisis, the DOE has searched for a mission to justify its existence. As such, its mission and budget priorities have drastically changed.

Fully 58% of DOE's budget is comprised of weapons-related functions. While this function must be maintained, only one-third of its budget is directly related to energy activities, and the federal government's role in these energy markets should be re-evaluated. DOE's ability to affect energy markets is minimal: its budget is only 8% of total U.S. energy spending.

The General Accounting Office has concluded that, "DOE is not an effective or successful cabinet department." The department has a diminishing sense of purpose and suffers from mission overload. A separate energy bureaucracy is unnecessary. While many of the necessary functions conducted by the Energy Department must be maintained, many others fail to serve vital federal functions.

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

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

DEVELOPING LEGISLATION

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

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

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

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

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

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

REVIVING FEDERALIST PRINCIPLES

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

So far, the 20th century has largely been an experiment in what all the federal government can do, not what it should do. The enthusiasm for central solutions to our nation's problems has evolved significantly. Two World Wars and a Great Depression have placed great tests upon the Constitutional meaning of a "limited government." America united twice to defeat a world-wide foreign military threat.

FDR's Great Society used a similar centralized approach to rally the nation around a great domestic threat. LBJ's War on Poverty asserted that the federal government could and should do more. Meanwhile, predominant economists and political scientists applauded.

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

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

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

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

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

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

Debilitating rules and regulations have weaved their way into our government and its laws, portrayed as an exercise for the public good. This century has conducted an unprecedented exercise on behalf of the public good. Yet, all too often, good intentions have been manipulated by bureaucracies to serve parochial interests instead of those of the public. Over these time, rules, programs and laws have taken a life of their own. Under the guise of good public policy, these honorable intentions have been thwarted by misguided solutions and unintended consequences. It is high time we look at this mountain of federal bureaucracy from a perspective that revives the fundamental constitutional paradigm.

The budget document now before the House and Senate presents us with an historic opportunity to revisit the very premise and rationale of our federal government. In many ways, our crippling debt and running budget deficits are a blessing in disguise. If anything, they force us to make tough decisions and prioritize what it is we want our federal government to do. Today, my greatest fear is not that we will fail to balance the budget. I believe both houses of Congress have presented very honest and fair budget proposals. My greatest fear is that we will abandon our federalist principles once the budget is balanced, thereby leaving our federal bureaucracy on its continued course.

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

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

PREPARED STATEMENT OF CONGRESSMAN WALKER

Mr. Chairman, thank you for the opportunity to testify on the "Restructuring of the Executive Branch and the Federal Agencies."

As Chairman of the House Committee on Science I have the privilege of being able to glimpse into the future. In fact the first hearing I held under my chairmanship was entitled "Is Today's Science Policy Preparing Us For the Future?"

In that hearing the Committee saw the many changes that will take place in our country and the government which serves America in the years ahead.

It has been my hope ever since I arrived in this body that Congress and the Executive Branch be more forward looking institutions. It seems to me that we are always trying to solve yesterday's problems. Instead as a government we should be looking at ways to anticipate what lies ahead and enact policies that are future-oriented.

Naturally it follows that the organizations which formulate and administer these policies should be rationalized to reflect the rapidly changing nature of our society.

For example, one of the restructuring options which should be considered is the combination of the Departments of Labor and Education. Because of rapidly changing technology we will need to create a system of effective lifetime learning.

No longer can one expect that the education one receives in one's youth will be sufficient to enable one to maintain the skill levels necessary to perform optimally in the workplace.

That is why a Department of Education and Labor which emphasizes the need for continued lifetime skill improvement will be a necessity for America's competitiveness in a rapidly changing world economy. On the fiscal side, such a combination would also save \$4 billion a year.

Another Executive Branch reform that I have long advocated is the creation of a Department of Science. To me, this would be the focal point for future-oriented programs within the Federal Government.

As we enter the 21st century, Science will play an increasingly important role as a driver of economic growth. As we have seen in the recent past, inventiveness has been a key to job creation.

A Secretary of Science would be the member of the President's Cabinet who would work with the other Cabinet secretaries to assure that new ideas are brought to bear on the policy deliberations of the Executive Branch's most important policy-making council.

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

There are several reasons for bringing these entities together in a new enterprise.

First, a cabinet department would be able to highlight the role of science in making government decisions. In the House, we have just completed a long debate concerning the role of science in the regulatory process. During our deliberations on risk assessment we voted overwhelmingly to base regulations on health, safety and the environment on sound science. A Department of Science would be an agency that would help formulate and refine policies which would allow the government to place its regulatory decisions in an objective framework.

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

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

To put this figure into perspective, a reduction of 5,000 employees would account for just a little more than 5% of the workforce of the new department if one were to transfer all the employees of the existing entities into a science agency. If one

were to double that figure to 10,000, the savings generated would be over \$4 billion during that same seven-year period.

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

Mr. Chairman, for the first time in many years we are looking at a major restructuring of the Executive Branch of government. We should take this opportunity not only to downsize what everyone acknowledges is overly large but also anachronistic. Many of the charters for the Cabinet agencies were formulated during the 19th century. When the Department of Agriculture was created in 1862 over half the population lived and worked on the family farm. Today's economy is not only based on our agrarian heritage but it is to an increasing extent anchored in science, trade, telecommunications and information. As we reduce the size and scope of government we should rationalize what remains into cohesive units which address problems as they exist today.

PREPARED STATEMENT OF CONGRESSMAN KLUG

PRIVATIZATION

The House Committee on the Budget is proposing to terminate, block grant, or privatize 3 Cabinet departments, 284 programs, 69 commissions, 13 agencies, and privatize 3 commercial activities in the 1996 Budget Resolution. Privatization is a bigger part of this resolution than may appear on the surface as the private sector will step up to fill the void as the government moves out of many functions and services.

Privatization can range from contracting out relatively simple services such as building maintenance or food services to transferring enormous government functions and assets such as postal operations or railroads to private ownership. The thread of similarity that runs through all privatization is increased value to the taxpayers. Overall, the experiences of local, State, and Federal Governments around the world indicate that the private sector, driven by profits and regulated by market forces, perform more effectively, more efficiently, and at a lower cost than do governments.

We have many examples from around the world to draw from in exploring privatization options. Countries like Canada, Argentina, France, Australia and Russia have all taken steps to privatize government functions—particularly in the energy industry.

Privatization is not only an option for the Federal Government to balance the budget, but also, an opportunity for the Federal Government to help competition in the free market. In the current fiscal challenges facing the U.S. Government, the budget is a powerful tool capable of encouraging, sometimes forcing, behaviors and actions that will ensure sound financial health as we move into the next century. The committee should also note that according to various studies done on privatization, governments could save as much as 20 percent of their current costs of operation by simply eliminating the overhead costs from the budget. I hope that privatization will receive the full consideration of this committee as a common sense budgetary option.

The various options under privatization can be broken down into four categories:

- Asset Sales or Leases
- Contracting Out
- Functional Conversion
- Lifting Barriers to Privatization

PRIVATIZATION: ASSETS SALES OR LEASES

Since my appointment as "Privatization Point-Man" by the Speaker, my office has been approached by a number of people from the private sector who have an interest in investing in Federal Government assets ranging from the hydroelectric facilities under the U.S. Army Corps of Engineers and the Department of Interior Bureau of Reclamation to the Naval Petroleum Reserves under the Department of Energy. I wanted to brief the Committee on a few options to sell government assets.

- *Naval Petroleum Reserves (NPR)*

NPR was established back in the early 1900's under the Navy to provide oil for navy ships. In 1977, it was transferred to the Department of Energy. Currently, the site is managed by the government personnel but the oil production is operated by Bechtel under a contract to the government.

Selling the Naval Petroleum Reserves would bring in a projected net revenue of \$1.6 billion. NPR's annual cash flow is \$300 million for Elk Hills alone but private companies estimate that, could be increased by \$30 to \$40 million if privately operated.

President Clinton included the proposed sale of NPR in his 1996 budget request but proposes to corporatize the operation first. While corporatization as a first step is appropriate in some cases (Conrail, United States Enrichment Corporation, etc.) in this case it seems to make no sense. The value of the NPR lies in the projected oil production and not in the viability of the extraction operation currently in place.

- *National Helium Reserves*

Since established in 1925, the National Helium Reserves has accumulated a debt of \$1.4 billion. Selling the processing and storage facilities of the National Helium Reserves alone would save the Federal Government \$16 million by 2000. The National Helium Reserves nearly monopolizes the market by controlling 90 percent of the Nation's helium reserves. It is time for this program to operate more efficiently and more cost effectively under the free market of the private sector.

- *United States Enrichment Corporation (USEC)*

The Energy Policy Act of 1992 established USEC as a Federal corporation for eventual privatization. USEC is entering its final stages of privatization and it is required to submit a plan to Congress by July 1, 1995, to sell by fiscal year 1998.

The House, in H.R. 1215, passed the USEC Privatization Act. This is pending in the Senate Finance Committee. The proposed selling price is at least \$1.5 billion. Successful completion of the sale of USEC should give momentum to many other proposed privatizations.

- *Power Marketing Administration (PMA)*

Selling the PMAs would save taxpayers approximately \$280 million of appropriations every year. The five administrations include the:

- Alaska Power Administration (FY95 = \$6.5 million)
APA Proposed Selling Price = \$85 million
- Southeastern Power Administration (FY95 = \$22.5 million)
SEPA Proposed Selling Price = \$909 million
- Southwestern Power Administration (FY95 = \$21.3 million)
SWPA and WAPA Proposed Selling Price = \$3.5 billion
- Western Area Power Administration (FY95 = \$266 million)
- Bonneville Power Administration (Debt = \$3.7 billion)
BPA Proposed Selling Price = \$7 billion

The Senate just recently passed legislation to sell the Alaska Power Administration. I commend this action and will work in the House to support passage of a like measure.

I recommend privatizing the PMAs in the above order from least to most complex and learn from each as we go along. The revenues from selling the assets of the PMAs could bring in an estimated \$11.5 billion. The President has proposed privatizing all of the PMAs except for the Bonneville Power Administration in his fiscal year 1996 budget proposal by transferring the rights to market the power.

The U.S. electric industry is becoming more competitive, i.e. the interconnection of local utilities, the growing significance of independent suppliers, and the use of wholesale power markets. The industry's competitive structure has the potential to reduce the cost of power and increase service reliability. Government subsidized power prevents the American public from enjoying the benefits of increased competition.

- *Tennessee Valley Authority (TVA)*

While the power programs under TVA do not receive a direct appropriation from Congress, their non-power programs cost taxpayers \$140 million a year. These non-power programs include recreational programs, promotion of public use of land and water resources and the operation of a national fertilizer and environmental research center. TVA also boasts of having \$22 billion worth of assets, making it the largest utility in the nation. Privatizing TVA would not only save taxpayers \$140 million annually, it would relieve the government of the \$28 billion debt TVA owes to both the Federal Government and the private sector.

- *Commodity Producing Land*

Existing policies and federal control over commodity (timber, grazing, etc.) producing lands discourage provision of wildlife habitat and land preservation. In addition to evidence that government ownership does not guarantee environmental protection, the commodity production efforts of government agencies lose money every year. Between 1977 and 1988 losses on timber, grazing, and mineral programs totaled \$31 billion.

Other activities such as hunting, camping and fishing are heavily subsidized. This subsidization results in unrealistically low Government prices that serve to retard private incentive to develop recreational lands.

A privatization plan that takes into account environmental, commodity and recreational interests offers a way to eliminate taxpayer subsidies to special interests, increase the value and utility of American lands and provide tens of billions in sales revenues.

PRIVATIZATION: CONTRACTING OUT

- *IRS Debt Collection*

The IRS currently is owed in excess of \$150 billion in outstanding tax debt. This figure is 80 percent higher than the \$87 billion that was owed in 1990. One cause of this tremendous increase is that annual collections of delinquent taxes have dropped from \$25 billion in 1990 to \$23 billion in 1994.

In its 1995 High Risk Series Report, GAO stated "IRS has also not taken full advantage of the vast experience that private sector collection companies have in areas such as locating debtors and managing accounts receivable. Testing the use of such companies . . . may be an appropriate step in reengineering IRS' tax collection processes."

A 1994 GAO report indicates that states using private collection companies to collect delinquent individual income taxes, generally viewed the collection agencies as effective in their collections. An American Collectors Association Survey shows that private collectors average an 18 percent success rate on all debts. That rate applied to the \$56 billion that the IRS deemed uncollectible in 1994 would result in savings to the taxpayers of over \$10 billion.

- *General Services Administration (GSA)*

GSA holds a legal monopoly on the provision of support services to other government agencies. The agency has 18,500 employees and an operating budget of \$200 million but controls \$45 billion in government purchases and leases of buildings, services, office supplies, telecommunications and computer equipment. The real savings from reforms in GSA come from efficiencies and reduced prices for the goods and services provided to other agencies.

All of GSA's functions are support activities commonly available from a competitive private sector at lower costs. GSA could be restructured along functional product/service lines and opened up to competition from the private sector. According to a GAO report, between 1982 and 1992 GSA's Public Building Service reviewed 731 commercial activities. Of these, 73 percent were contracted out to the private sector at an average savings of 39 percent. Many GSA functions such as real estate management, fleet management, office supply procurement and others could realize similar savings.

- *In-House Privatization*

In the House of Representatives, we have many services available to us that can be easily contracted out. It makes no sense to have House beauticians or House barbers on the Federal payroll when these services can be provided by the private sector. Also on the Federal payroll, taxpayers pay as much as \$50,000 for Venetian blind cleaners and technicians and Carpet Layers and Carpet Cleaners. Other House services to consider for contracting out include the House Office Supply, some of the functions under the Office of Photography, Office Furnishings and various maintenance functions for the House office buildings. Privatizing these functions would save as much as \$44 million a year in salaries and appropriations alone. This does not even include the revenues brought in from renting or leasing. There is no reason for our constituents to continue paying for these services.

- *Government Printing Office*

The Government Printing Office, created in 1860, handles the printing needs of all three branches of the Federal Government. All printing must be sent to the GPO, where it is either printed or contracted out by bid to private printers. The GPO contracts out about 80 percent of the printing.

Congressional printing (the *Congressional Record*, *Federal Register*, bills, resolutions, committee reports, etc.) makes up most of what the GPO prints in-house. The in-house printing costs are estimated to be twice those of privately printed materials.

By transferring Executive Branch printing to GSA, transferring some other functions to the Librarian of Congress, and reducing in-house printing to a minimum level, the GPO work force could be reduced from approximately 4,100 to approximately 800, saving an estimated \$80 million per year.

- *Prisons*

Federal prisons are operating at as much as 51 percent above capacity. Limited capital budgets, and other fiscal constraints, make it difficult to take action to reduce overcrowding by using taxes or bonds to finance construction of new facilities.

Experience at some Federal agencies and the local government level shows that private prison companies can construct or manage prisons for as much as 20 percent less than government built and operated facilities. The U.S. Marshall Service contracts with private firms to run some minimum security facilities. Some two-thirds of detention centers at all levels of government are privately run. The Federal Bureau of Prisons has not kept pace.

The government needs to require Bureau of Prisons to conduct studies and where feasible, contract out some prison facilities. Also there is a need for legislation, such as tax consideration and lifting of Federal land use restrictions, to help local governments in their efforts to further privatize. The President's fiscal year 1996 budget includes intentions to privatize the management of most future pretrial and minimum and low security facilities now under construction.

- *Contracting (General)*

When the Federal Government competes with companies in the private sector, it stifles private industry growth and erodes the tax base by doing work that would otherwise be performed by taxpaying firms. This especially puts small businesses at a disadvantage. Having the Department of Defense and the Veteran's Administration involved in operating their own grocery distribution systems is but one example of the areas in which government competes with the private sector.

The General Accounting Office (GAO) and the Office of Management and Budget estimate that competitive contracting saves an average of \$9,000 per year for each government position that is replaced. Using this figure, the Heritage Foundation recently estimated that the government could save as much as \$9 billion a year by contracting out the approximately one million government positions currently involved in the provision of "commercial" services.

PRIVATIZATION: FUNCTIONAL CONVERSIONS

- *National Weather Service*

The National Weather Service (NWS) in 1990 issued a policy which in part stated, "The NWS will not compete with the private sector when a service is currently provided by commercial enterprises, unless otherwise directed by applicable law." Nevertheless, NWS continues to provide specialized functions such as fruit and agricultural forecasting, domestic aviation and marine weather forecasting, fire weather forecasting, marine facsimile service, and regional climate centers. These functions together cost the taxpayers over \$12 million per year.

Private firms are quite capable of providing all of these services and the users are quite capable of paying. American taxpayers should not be asked to subsidize the narrow interests of a few. NWS should spend its resources focusing on its core missions of collecting and disseminating world-wide weather data and information and providing severe weather warnings and weather forecasts to the general public.

- *Federal Loan Programs*

In attempting to service and manage a \$155 billion loan portfolio and \$450 billion in loan guarantees, the Federal Government engages in commercial activities usually performed by private banks and investment firms. Federal agencies administering loans have inadequate collection efforts, poorly managed loan programs, and improper accounting procedures.

Agencies should sell loans to private markets without recourse and should purchase private reinsurance for loan guarantees. Selling the loans would provide for more accurate and proper budget treatment allowing agencies' funding to better managed. Moreover, the government would be relieved of the servicing costs and would benefit from more efficient private servicing of the loans, which, according to recent studies, could result in savings of \$2 billion per year.

- *United States Postal Service (USPS)*

The operations of the USPS have not kept up with customer expectations. Mail delivery is 15 percent slower now than it was 25 years ago. Post office hours are inconvenient, worker productivity is declining, and improper measurements and management emphasis on the wrong things has caused truckloads of undelivered mail.

Telephones, facsimile machines, cable, satellites, computers, television and radio are all methods used by people to communicate around the world. The USPS is being abandoned by people at an alarming rate and in now just another non-essential service provided by the Federal Government.

To bring about lower prices and better service, the government should begin to empower postal workers with the rights and responsibilities of ownership by turning the USPS into an employee owned company.

- *Government Sponsored Enterprises*

This one is a little more complex. The principal issues are governance, accountability and liability, not necessarily direct budgetary reductions. Government Sponsored Enterprises (GSE) are instrumentalities of the Federal Government. They are privately owned and operated, but are exempt from most, but not all laws and regulations applicable to Federal agencies and to similar private enterprises.

The Reagan Administration favored eliminating GSEs arguing that federally supported borrowing distorted the allocation of financial resources and discouraged borrowers without access to Federal subsidies. Others contend that GSEs are a legitimate means of encouraging the flow of credit to favored groups—such as farmers, home buyers, students, and thrift institutions—considered not capable of competing with other borrowers. The Student Loan Marketing Association (Sallie Mae), a GSE set up to help ensure adequate private sector funding for federally guaranteed education loans is currently seeking full privatization which will remove a \$50 billion contingent liability from the taxpayers. Sallie Mae wants to expand into new markets and is prohibited from doing so by their government charter which also gives them such advantages as access to federal funds, exemption from state and local taxes, and exemption from certain SEC requirements.

In any event, the implicit Federal backing of the GSEs exposes the taxpayers to contingent liabilities approaching \$700 billion and the GSEs access to low cost federal borrowing stifles competition in the marketplace.

- *NASA's Aeronautical Research and Development*

For fiscal year 1995, \$882 million has been appropriated for Aeronautical Research and Technology (AR&T). Much of this money is for research on such things as future supersonic civil air transport capabilities and developing environmentally compatible, economical aircraft, all commercial applications.

NASA has been criticized for being inefficient and unresponsive to industry needs for R&D. Currently, U.S. firms spend 25 percent of development testing time in European wind tunnels where capability and cost-effectiveness are considered greater. European facilities, built with government funding, are privately operated. Arguably, the inefficiency of government run R&D has retarded development in private aviation by discouraging more efficient businesses from entering the market.

Private industry began studying investment research facilities. Industry's self funded approach, however, was abandoned when the Clinton Administration showed a proclivity to provide government supported research to bolster U.S. competitiveness in the world aviation market and ensure adequate defense support. Moving this effort to the private sector could save more than \$800 million per year.

- *Amtrak*

The National Rail Passenger Corporation (AMTRAK) was created in 1970 with a one-time grant of \$40 million. It was conceived as a 2 year program that would become self sufficient. However, it has cost the taxpayers over \$15 billion since its creation.

Amtrak carries less than one percent of all intercity travelers but is still the most highly subsidized form of intercity transportation. It could need as much as \$10 billion over the next 5 years to maintain its current level of service and its need for federal assistance will continue to increase because of legislative interference and burdensome regulation.

Federal subsidies need to be phased out, inappropriate labor regulations need changing and government interference with operating management should be eliminated. This effort could save taxpayers as much as \$2 billion per year.

• *Air Traffic Control*

With approximately 46,000 employees, the FAA regulates air transportation and operates various support services. Air traffic control is the largest FAA function, employing more than 26,000 people. The air traffic control system is composed of flight service stations, airport traffic control towers and en-route air traffic control centers. The flight service stations provide weather briefings and other information to aviators, while the control towers and centers provide traffic control.

A more extensive involvement of the private sector in the management of the delivery and maintenance of air traffic services would improve their effectiveness, safety, and cost. The FAA already has contracted out some control towers and has found this to be effective. The role for the private sector needs to be increased to bring more creativity and ingenuity to the maintenance of these facilities. The President's fiscal year 1996 budget calls for privatization of air traffic control and recent studies show that it could save up to \$18 billion between 1996 and 2005.

PRIVATIZATION: BARRIERS

Many of the obstacles Congress faces in privatization initiatives are not only from those who oppose privatizing various government entities. Many of these obstacles were placed by the Federal Government. Lifting these barriers is a key first step to carrying out and, in some cases, simply looking into the possibilities for privatization.

Department of Agriculture

The Farmers Home Administration, Agricultural Stabilization and Conservation Service, and the Soil Conservation Service are required to keep minimum employment levels.

The Farmers Home Administration is prohibited from contracting out with private debt collection firms to collect delinquent payments.

Department of Defense

Army depots have a minimum civilian employment level requirement.

The Department of Defense is prohibited from contracting out security and fire-fighting services.

Department of Energy

The Department of Energy is prohibited from studying the sale of the Power Marketing Administration, except Alaska.

[The prohibition applies to the Tennessee Valley Authority (TVA) which is not under the Department of Energy]

Government Printing Office

No appropriated funds are allowed to be used by the Executive Branch for the procurement from commercial sources of any printing related production of Government publications.

Department of House and Urban Development

The Public and Indian House Program has minimum employment levels.

Department of Labor

The Job Corps is prohibited to contract out any Civilian Conservation Center.

Department of Transportation

The FAA is prohibited from contracting out functions of an airport control tower at any airport.

The Department of Transportation is prohibited from funding changes in the current Federal status of the Transportation Systems Center or the Turner-Fairbank Highway Research Center.

Department of Treasury

No appropriated funds are allowed to be used for the study of the possibility of contracting out or the actual contracting out of positions under the United States Mint Police Force and the Bureau of Engraving and Printing Police Force.

Currently, Congress is required to be notified before the Department of Labor and/or the Department of Treasury contract out or privatize any functions under their jurisdiction:

No Federal funds shall go to contracting out or privatizing any functions or activities presently performed by Federal employees in the Department of Labor unless the Appropriation Committees of both Houses of Congress are notified 15 days in advance.

No appropriations shall be used for contracting out or privatizing any functions activities presently performed by Federal employees in the Department of Treasury unless the Appropriations Committees on both Houses are notified 15 days in advance of such reprogramming of funds.

PREPARED STATEMENT OF SENATOR BOND

Thank you, Chairman Roth, for asking me to testify on my proposal for the reinvention of the Department of Housing and Urban Development. I applaud this Committee for taking up the very important topic of government reinvention and the various proposals for elimination, consolidation, and revision of the various Federal agencies and Federal programs.

As Chairman of the VA/HUD Appropriations Subcommittee and as a Member of the Housing Opportunities Subcommittee of the Banking Committee, I am particularly concerned about the need to redirect Federal housing and community development policy from Federal micromanagement to State and local decisionmaking.

At this time, Congress faces a tremendous budgetary challenge of reversing a continuing and growing fiscal drain on the Treasury by failed housing and community development programs. These uncontrolled costs cannot be sustained, especially as the Congress begins to address unacceptable Federal spending and budget deficits. We have an obligation to come to terms in a responsible way with the Nation's housing and community development needs; however, we also have an obligation to ensure that our solutions will not result in mortgaging the future of our children, our grandchildren, and future generations.

The Department of Housing and Urban Development, with an estimated \$22 billion in annual outlays for fiscal year 1994, is one of the largest Federal agencies in terms of discretionary spending, with almost 12 percent of the federal-wide total, and is also one of the fastest growing, increasing at the rate of 9 percent per year. To highlight the depth of HUD's fiscal problems, the current appropriation for the renewal of existing section 8 contracts for fiscal year 1995 is less than \$3.3 billion; in the year 2000, the annual cost of renewing section 8 contracts could be as much as \$20 billion.

Moreover, as part of HUD's substantial organizational, management, and program deficiencies, HUD faces a thicket of enormous problems, including: first, the need to minimize mortgage loan defaults and address the physical inadequacies of insured multifamily properties, an area of critical importance since HUD has set aside loan loss reserves of \$10 billion to cover expected loan defaults; second, the need to resolve the billions of dollars of backlogged housing rehabilitation needs, increased vacancy rates, and declining tenant incomes for public housing residents; and third, the need to address the spiraling costs of providing section 8 assistance to low- and very low-income families, including the costs of over-subsidizing a significant portion of section 8 project-based housing.

Nevertheless, the President's Budget for fiscal year 1996 offers very little in the way of concrete solutions to the fiscal, organizational, management, and program deficiencies facing the Department. At best, the President's Budget requests increases in the HUD Budget of over \$20 billion in Budget Authority and \$14 billion in Outlays over the next 5 years and then gives lip-service to reform through block grants which are little more than extensions of current programs and which will be micromanaged at the Federal level through HUD performance measures.

I am not recommending that we dismantle HUD, but I do suggest that we devolve many of HUD's responsibilities to states and localities or other entities better able to handle them. For example, the Department has grown from an agency responsible for approximately 50 programs in 1980 to an agency that currently administers over 240 programs. This is unacceptable. HUD does not have the capacity to administer all these programs and the mounds of regulations which now come with these programs. Nevertheless, I believe the Federal Government has a role and responsibility with regard to housing and community development.

This session of Congress represents a tremendous opportunity to shed Federal micromanagement and the current "one size fits all mentality" that plagues Federal housing and community development programs; it is time to redirect housing and community development decisionmaking back to State and local level.

It is also clear that this Congress wants to change HUD and that reform must take place. As we think about the responsible reform of HUD, I think that it is useful to set some simple principles to guide our decisionmaking. I propose four basic pillars of change for HUD as a foundation for HUD reform:

1. Any reform should be designed to provide protection for the tenants who depend on HUD for the roof over their heads;

2. Any reform should try to protect and maintain the good affordable housing stock of the Nation, while allowing obsolete and unusable housing to be demolished and replaced, where practical;

3. We must consolidate the some 240 existing HUD programs into fewer programs that accomplish HUD's mission in an efficient and effective way and which generally defer to State and local decisionmaking; and

4. We need to presume that state and localities are our partners in addressing the housing and community development needs of our communities, and that we should provide the maximum flexibility possible to those states and communities that administer housing and community development programs responsibly.

I believe that HUD should be rebuilt through the development of three basic block grants, by the retention of three of its targeted programs, and by moving some functions out of HUD altogether. I would like to propose for your consideration the following approaches:

1. A Public Housing Block Grant which consolidates all current public housing programs. Funding would be allocated to all PHAs, with maximum entrepreneurial flexibility for PHAs to customize their activities to meet their local community needs. Poorly run PHAs would have to submit action plans to HUD for approval, and troubled PHAs would be subject to receivership. I stress flexibility for PHAs to create better income mixes, reward employment, and tear down obsolete housing at the discretion of the community.

2. An Assisted Housing Block Grant, with section 8 funding provided directly to States. States could then authorize their state housing finance agencies to manage their section 8 program or possibly contract out the responsibilities to PHAs. States would have broad latitude to design specific programs to meet special needs, and would be in a better position to implement a one-stop shopping approach for housing development funding, such as through the provision of section 8 assistance and the low-income tax credit assistance.

3. A Community Development Block Grant which would consolidate, among others, the HOME program, the homeless assistance programs, and the existing CDBG program. Funding would be provided under existing CDBG funding formula, with, however, 40 percent of funding allocated to the states and 60 percent of funding allocated to entitlement communities; there would also be a 25 percent match requirement and a match waiver for distressed communities.

Flexibility would be a foundation of this program. However, states would be required to conduct a needs assessment for maximum use of the program funds. Accountability in the program would be achieved through post-audit reviews; where a state or locality fails to address local needs adequately, the state or locality would have to submit for some period of years (for example, 3 years) future program activity plans to HUD for approval.

4. Retain the Section 202 Elderly Housing program, the Section 811 Disabled Housing program, and the Housing Opportunities for Persons with AIDS program. These are successful programs which meet the needs of special populations.

5. Conduct a top-to-bottom review of the FHA mortgage insurance programs to establish the mission and parameters of the individual FHA programs.

6. Move the Office of Fair Housing and Equal Opportunity to the Department of Justice and the Office of Federal Housing Enterprise Oversight to the Treasury.

These proposals impress me as reasonable starting points for remaking HUD. At every step, we need to treat our performing state and local partners as genuine partners, and grant them the greatest authority and flexibility possible in making program decisions. Nevertheless, we have the responsibility to fix the problems in our Federal housing and community development programs before we pass these responsibilities to states and local governments.

Thank you again, Mr. Chairman and Members of the Committee, for asking for my testimony. I hope that you will find my observations useful.

PREPARED STATEMENT OF DONALD F. KETTL

I very much appreciate the opportunity to appear this morning before this Committee to testify about the restructuring of the Federal Government. Not since the Hoover Commissions of the Truman and Eisenhower administrations has there been such interest in a fundamental reform of what government does and how it works. This Committee's review is an important element in this reform.

I am a professor of public affairs and political science at the University of Wisconsin-Madison, and a non-resident senior fellow in the Brookings Institution's Center for Public Management. At the Center, we have been conducting a long-term review of the management of the Federal Government that bears directly on the critical questions this Committee is asking.

The nation is in the midst of a fundamental debate not only about what government ought to do but also the way government can best be structured to do it. The Federal Government unquestionably needs radical surgery. But we have to exercise great care that, in the effort to save the patient, we do not kill it and all who depend on it.

Many of the restructuring proposals rest on broad assumptions, brave hopes, and unproven technologies. If we are not smart in how we do the job, we run the risk of dumbsizing, not downsizing, the Federal Government. If we seek symbolic change, we will get only hollow symbols for our efforts. There is no greater waste of taxpayers' dollars than for the government to undertake a job and to do it poorly. Our challenge is not just to downsize but to *smartsize*: to reconfigure the Federal Government so that it does its job much better, at lower costs and higher performance.

Let me explore three questions to suggest an approach to smartsizing:

- What principles of organizational design should drive our reform efforts? There are plans afoot to reduce the number of cabinet departments, to transform some departments into bureaus, to make some bureaus into independent agencies, and to change some government agencies into corporations. How should we sort out such proposals?
- What principles should drive privatization? There are plans to privatize a staggering array of federal programs. How can we use the right lessons of the private sector to revitalize the Federal Government?
- What principles can we use to drive restructuring in the right direction? We surely want to accomplish more than change for change's sake. How can we develop the most effective mechanisms to steer government?

ORGANIZATIONAL DESIGN

If we have learned anything about organizational design, it is that structure matters. It can be an important symbol: the Departments of Veterans Affairs and Education were both created to elevate the importance of veterans and education issues in the Federal Government. It can be an instrument of effectiveness: co-location of social services can make it easier to coordinate job training and welfare programs. It can be an instrument of efficiency: slashing the number of layers in the federal bureaucracy can reduce the costs of governmental programs. Different organizational strategies can have very different consequences. We need to design a system that best helps us do what we want to do—and that helps elected officials hold managers accountable for results.

The Federal Government has created a remarkable array of organizational entities:

- Cabinet departments, 14 in all;
- Independent administrative agencies, like NASA and the Environmental Protection Agency, that perform major managerial tasks but do not have cabinet status;
- Independent regulatory agencies, like the Federal Communications Commission and the Consumer Product Safety Administration, that write and manage important regulations;
- Hundreds of other government commissions designed to coordinate policy (like river management questions) or provide specialized services (like tasting tea).
- Government corporations, a truly remarkable array of entities including the Government National Mortgage Association, Amtrak, the Postal Service, and the Corporation for Public Broadcasting.

We now have an often confusing array of organizational entities. The reforms being debated, moreover, might even more fully complicate the Federal Government's organizational structure with new bureaus, agencies, and government corporations. We need to think very carefully about remaking government's structure. Just as restructuring can promote symbolism, effectiveness, and efficiency, it can also get in the way. We need to maximize our gains without causing unexpected mischief. These questions can help us think through how to do the job smart.

What Should Be the Building Blocks of Reform?

Government's structure builds on agencies charged with managing programs, as authorized by Congress. That makes agencies the building blocks. One approach to restructuring the executive branch is to group functionally related agencies and programs together. That makes much top-down sense. It can improve coordination and reduce redundant support activities.

But there are two confounding issues. First, grouping related functions together in the executive branch will not help if these functions are overseen by different congressional committees. Congress, not the president, is the architect of the executive branch. If functionally related agencies answer to different committees, it will be hard to achieve coordination and efficiency.

Second, the most important but difficult work in administration today is coordinating programs across agency boundaries. The Commerce Department must coordinate its international efforts with the State Department and its domestic development with the Labor Department. Law enforcement activities are spread across a host of agencies. There is no single organizational framework that will best solve all of these problems. Interconnections are both numerous, and different links grow up as new policy problems arise. This does not mean that we should not restructure government to minimize the interconnection problem. But it does mean that we will never be able to solve the problem through restructuring—and that in trying to solve some problems through restructuring we might unintentionally make others worse.

What approach should we use to sort through these problems? What matters most, and what citizens rightly demand, is that government provide high-quality services without high cost or excessive red tape. The sensible way to tackle the tough restructuring problem is to build from the bottom up: to construct government so that it works as well as possible for the citizens who receive its services. The lesson:

No top-down restructuring effort can be fully successful. It makes much more sense to restructure government from the bottom-up, to best serve the nation's citizens.

When Should A Government Activity Be A Cabinet Department?

There, quite simply, is no dear principle that tells us whether we should have five, seven, nine, eleven, fourteen, or more cabinet departments. What we can say is that different arrangements have very different implications.

Increasing the number of departments makes it harder for the president to focus attention on issues, but it does allow more voices to be represented at the highest levels of government. Fewer departments would allow the president to focus more sharply on cabinet issues, but such a structure would make it easier to bury important problems in the lower levels of the bureaucracy and hide them from sustained national debate.

There is no structure of government that is inherently any better than another. Nor is there a magical number of cabinet departments. The principle we have always followed is that *an agency ought to become a cabinet department when its functions are deemed of such truly national importance that they deserve ongoing, top-level review and debate.* For example, in 1913, Congress voted to split the Department of Commerce and Labor into separate departments of Labor and Commerce, to recognize the independent and strong importance of each. To close the Department of Commerce today would revisit this question and make a strong statement about the relative importance of commerce and labor issues in the Federal Government. Which functions ought to have cabinet status, and which should not, is largely a question of the political importance which we choose to assign to the function. It is not primarily a managerial issue.

Different organizational choices, however, do have important and very different administrative implications:

- Cabinet status conveys a higher level of importance. Communications from cabinet officers are more likely to find their way faster to The Oval Office. In the Federal Government's pecking order, cabinet departments stand at the head of the line.
- Subcabinet status (whether as independent agencies or government corporations) typically leads to more indirect oversight: executive branch agencies like the Office of Management and Budget; and congressional subcommittees. That can make it harder to coordinate programs and ensure thorough policy oversight.
- A further proliferation of administrative types will make it harder for both Congress and the president to hold the executive branch accountable. A con-

fusing array of departments, bureaus, agencies, and corporations can muddy the lines of accountability between policy makers and the real results of the government's work.

- Fewer departments, and especially more agencies, bureaus, and government corporations, will mean giving government managers more discretion. Such a step has to be accompanied by a careful plan to ensure accountability.

Other nations have experimented extensively with restructuring and reform. Great Britain, Australia, and New Zealand have especially pushed more toward giving managers more discretion, and holding it accountable for performance standards. The foreign experience demonstrates, however, that granting managers more autonomy makes it harder for elected officials to hold them accountable.

Different structures, finally, can have very different budgetary implications. Many restructuring plans argue for a greater balkanization of the Federal Government: separation into more free-standing, self-financing entities. That could make it easier to judge the performance of each. But it could also exacerbate the problem of balancing the budget, since it will make it harder to make trade-offs among programs. It could also make it harder to justify programs to help the poor pull themselves out of poverty, since performance is notoriously tough to measure and the programs are unlikely to turn a profit. The lesson:

Government functions should be cabinet departments when their mission is deemed of truly national importance. Increasing the number of cabinet departments makes it harder for everyone to focus clear attention on what they do. But shrinking the number of departments can send critical questions underground and make it harder to ensure accountability.

When Should We Use Government Corporations?

There are both bad and good reasons to create government corporations. Bad reasons include gaining relief from government procurement and personnel rules. If the rules get in the way, they can be changed or agencies can obtain waivers. Another bad reason is to provide managers with extra flexibility. There is nothing in the government world that truly prohibits energetic thinking or careful management, and many good government managers prove that every day. Good reasons include using competitive forces to improve efficiency, reduce costs, and enhance service. Government corporations should only be used for enterprises in which the government can be sure the such competitive forces can truly help achieve these aims.

Over the last generation, government corporations have proliferated into a confusing array of organizational forms. The strategy is popular—it provides a way to get government organizations off the budget. The philosophy behind government corporations is a simple one: Everything that the government can spin off to the private sector ought to be; anything that the government must do but which can be driven by private competition ought to be corporatized in some form; and only those core governmental functions that cannot be corporatized ought to be performed by government itself. This approach is fine as far as it goes, but it begs the really tough questions. How can we instill more competition in government programs? And how can we make government programs more accountable for their results?

Carefully constructed government corporations can help us answer these questions. The experiences of government corporations, in both the United States and abroad, demonstrate several important points that show how tough it is to answer these questions well:

- The government corporation isn't always cheaper than a government agency.
- Putting government programs under competitive pressure is tantamount to making a political decision to remove service from some areas. That is the lesson of Amtrak's struggle to make ends meet. Some communities are losing train service because Amtrak cannot do so without incurring a loss.
- Government corporations exist in a murky in-between world where the standards are fuzzy, and that can vastly complicate accountability. In the past, managers of government corporations have sometimes used their quasi-government status to insulate themselves from real private competition (they claimed they were pursuing public missions for which the private sector was ill-equipped) and from real public oversight (they claimed they needed insulation from political forces to compete effectively in the private sector). Government corporations have been able to change their stripes as the need dictates.

The lesson:

Government corporations can help provide incentives for efficiency and effectiveness. They make the most sense for enterprises in which there is real market competition. But even in a competitive environment, the quasi-pub-

lic/quasi-private status can make it very hard to ensure government corporations are truly accountable. The potential for gains in efficiency and effectiveness comes at a substantial risk.

PRIVATIZATION

Few concepts have been embraced so broadly but used so loosely. To make matters worse, different analysts use the same terms in different ways.

I find it most useful to use "privatization" to refer to strategies that enlist the private and nonprofit sectors to achieve public goals, or that completely transfer public programs to private markets. In other countries, the term tends to have a much more limited meaning: the sale of public assets and enterprises (from airlines to the telephone company) to the private sector. The United States, however, has never had the large state-owned enterprises that many other nations have sought to sell. The United States, in fact, ranks second from the bottom (just slightly higher than Japan) among industrialized societies in government spending as a percentage of the gross domestic product. Many foreign nations have sought to become more like us. Their privatization experiences therefore have relatively little utility for American reform.

There are, however, three important lessons for privatization.

1. Privatization is Not One Strategy But Many

In the United States, "privatization" can most usefully be thought of as a toolbox of different kinds of public-private partnerships. It can also, occasionally, mean the sale of government assets. These tools lie along a rough continuum that balances public with private power:

- Direct services, like Social Security and the current air traffic control system.
- Franchises, like the U.S. Department of Agriculture's National Finance Center, which performs accounting operations according to cost-reimbursement agreements with other federal agencies.
- Contracting out, the most typical and most significant form of public-private partnerships. Private contractors provide a wide range of goods and services, from cleaning up former atomic weapons facilities to cafeterias in federal office buildings.
- Voluntary services or partnerships, in which the government encourages private sector volunteers to provide services. The Small Business Administration's SCORE program (Service Corps of Retired Executives) is just such a program. A relatively tiny budget helps support a large number of retired private sector executives who advise small business operators on strengthening their operations.
- Vouchers, in which service recipients are given the right to buy goods and services in the private marketplace instead of having government supply them directly. The Department of Housing and Urban Development's Section 8 housing program, for example, provides eligible individuals vouchers to help rent a home. The U.S. Department of Agriculture's food stamp program likewise distributes vouchers to eligible citizens to buy food in supermarkets. Reformers are now suggesting that all public housing programs be transformed into voucher programs.
- Employee stock ownership plans (ESOPs), in which government employees have the right to organize and compete for their own jobs against private-sector companies who could do the job instead. The name is a bit of a misnomer; the process has little in common with private sector ESOPs. To further confuse the debate, it is also known by other names, including "privatization in place" and "competitive tendering" (the New Zealand term of art). Reformers have argued that ESOPs could transform government enterprises. In some foreign countries, notably New Zealand, this tactic has been aggressively used. In the Federal Government, however, no ESOP has yet been put into place. Without a track record in this country, we cannot view the ESOP as anything more than a bold experiment—one that deserves careful and limited experimentation, but an experiment nonetheless.
- Government corporations, a widely disparate collection of quasi-government agencies that share some of the characteristics of private corporations. Some, like the Postal Service and Amtrak, are enterprises funded by the revenues they generate but which are operated under government control. Others, like COMSAT, are owned by private shareholders but are operated under broad government rules. And some, like the Legal Services Corporation, have neither private shareholders nor self-generated program revenue. What the more

than 35 government corporations share is a degree of insulation from the regular policy and budget process.

- Asset sales, the marketing of a government agency's program and assets to a private organization. Privatization advocates have contended that enterprises like Amtrak and the Postal Service, which already are subjected to market competition as government corporations, ought to be sold off to private bidders. They argue that other services, like the Tennessee Valley Authority, the National Weather Service, and the air traffic control system, could be fashioned into enterprises that would find private buyers. And they argue that other federal assets, like range lands in the West and the helium reserve, ought to be sold off to the highest bidder.

Privatization has such rich variety that it is impossible to generalize about it. There are, in fact, many different tactics that match different problems differently. The lesson:

Smart reform requires carefully matching the right privatization answer to a given public policy problem.

2. Not Everything Should Be Privatized

At one time, we defined government's role by function. There were some functions, like running prisons or providing the national defense, that were inherently governmental because of their very nature. In the last generation, however, we have demonstrated that virtually any governmental function can be provided by the private sector. Private contractors now build and run prisons, provide the weapons on which our national defense depends, clean up toxic and radioactive waste sites, and patrol federal installations. We no longer can define what government ought to do by what only it can do.

Nevertheless, just because we can privatize something does not mean that we *should* do so. We should not privatize two kinds of programs: those that are inherently governmental functions; and those for which competitive private markets do not exist or cannot be created.

The General Accounting Office, for example, discovered that government contractors were performing inherently government functions that should have been performed by government officials instead:

- contracting for services of a DOE hearing examiner and a personnel security review examiner. GAO found that these services were quasi-judicial and should have been administered by government employees.
- preparing testimony for agency officials. GAO found that a contractor had drafted congressional testimony for DOE officials and had helped establish governmental policy. That, GAO found, was a function that should be performed only by government officials.
- answering an agency's telephone hotline. GAO found that private contractors were hired to answer EPA's Superfund hotline. In answering questions, they had to interpret regulations and hence make policy.

In all, GAO discovered that 28 of the 108 randomly selected federal contracts it examined involved activities that, according to government policy, should not have been performed by contractors. It is one thing to rely on contractors to help provide goods and services. It is quite another to use contractors to exercise the government's sovereign power. Too often, the urge to privatize has driven the Federal Government across the line.

Moreover, even in those programs that should not be privatized because they are inherently governmental, sometimes competitive markets do not exist or cannot be created. Privatization rests on an important, fundamental assumption: that a competitive market can provide services more efficiently and effectively than a monopolistic government. If the private sector is just as monopolistic as the government, however, it is not likely to be any more efficient than government. The great lesson of the nation's now lengthy experience with privatization is that it is competition, not the public-ness or private-ness of a program, that drives costs down and performance up.

In many government programs, competition frequently does not exist or is hard to stimulate. Government typically gets involved in programs, from providing public housing and testing drugs to cleaning waste dumps and guiding air traffic, because the private sector cannot do the job; will not do the job; or might do the job in ways that undermine public trust in critical systems. Much of what government does it does because there are few suppliers of quality goods at reasonable prices. In the absence of an effective market, turning these tasks over to the private sector might only worsen the very problems that citizens originally came to government to solve.

Moreover, in many of these markets, such as health care for the poor, government is the principal and sometimes the only buyer. Efficient markets require large numbers of sellers competing to serve a large number of buyers. To privatize government functions without such competitive markets would risk recreating monopoly power and market failure—but this time in the private sector instead of in government. The lesson:

Just because almost everything can be privatized, not everything should be. Government must command those activities that represent the exercise of sovereign power. Moreover, for those programs that are privatized, government must ensure that it can use or create competitive markets. Government must take great care in deciding what and how to privatize.

3. Privatization Cannot Manage Itself

Reformers promote privatization as a tactic not only to improve government but also to reduce its size. Its advocates often argue that transferring programs to the private sector will permit the government to abandon its responsibility. We have a surprisingly long history with privatization tactics, however, that belies this assumption. Since World War II, the Federal Government has not started any new program without making it a partnership with the private sector, or with state and local governments. The government got involved in these programs because policy makers decided there was a public interest involved. Even selling an activity off to a private company is not likely to evaporate that interest. Some residual governmental role will remain.

We have painfully learned, through mounting tales of waste, fraud, and abuse, that these partnerships are exceedingly complex to manage, and that the public interest is difficult to ensure. We have also learned that only a skilled governmental hand, one that applies the right balance of fundamental policy control with substantial operating discretion, can prevent these problems from recurring. The most egregious cases of fraud, waste, and abuse in the 1980s were of contracting out gone awry, of the failure of the Pentagon, in particular, to pay careful attention to its contractors. Management problems at HUD in the late 1980s put billions of dollars at risk, while inadequate oversight of a major Hubble space telescope contractor led to an expensive 1994 mission to repair major faults. Add to that the failure to detect fraud in the Medicare program, the costly failure to detect and prevent the thrift crisis of the 1980s while the problems were embryonic, and the international scandal that flowed from the BCCI case of the late 1980s, and one message is clear. The potential for private distortion of the public interest is huge.

If the Federal Government is going to rely more on the private sector, it must learn the most important private sector lesson. No private company would dream of simply turning critical parts of its mission over to suppliers and count on a competitive market to ensure high-quality goods at low prices. The Nike athletic shoe company is an excellent example of how to think smart. A 1986 *Business Week* cover story explained that the company itself makes no shoes. It relies, rather, on suppliers around the world who manufacture shoes to Nike's standards. Nike focused on what part of its business to contract out (production) and what part to maintain in headquarters: research and development, design, marketing, and financial control. Despite the rhetoric of making government behave more like the private sector, we have not really learned the private sector's most important lessons.

When the government has not carefully managed its privatized programs, billions of dollars have been lost. Consider the following:

- Operation Ill Wind, a major FBI investigation of defense contracting in the late 1980s, showed that as many as 50 contracts totaling tens of billions of dollars were entangled with questionable, possibly illegal, activities. Indeed, an internal Pentagon report said that the procurement system had become so dependent on consulting contracts that "in some cases it has become difficult to determine where Government workers' functions stop and contractors begin."
- The multi-billion dollar mistake with the Hubble space telescope and the January 1986 *Challenger* disaster demonstrated NASA's dependence on its contractors and the costly risk of not managing those contractors closely enough.
- EPA's Superfund program has been plagued by scandals, cost overruns, and poor performance. Much of the problem has come from poor performance by contractors and EPA's inability to oversee them carefully.
- Even though Medicare is one of the world's best-run insurance programs, it is heavily dependent on private contractors that perform most of its day-to-day administration. A virtual cottage industry has developed to discover and exploit loopholes in the Medicare law—and that contractors working on behalf

of the Department of Health and Human Services have limited ability to prevent abuses.

Good management of privatized programs does not mean staffing huge bureaucracies to oversee private sector partners. Indeed, as privatization grows, many agencies could be substantially downsized to save money. But that would not eliminate the government's role. Indeed, it might even make the government's role more complex and difficult. To fill that role, the Federal Government will need to fine-tune its capacity: highly skilled federal bureaucrats to maintain the public interest; and a high-quality information system so that citizens and policy makers alike can know what results the system is producing. That is precisely the lesson that America's best-run companies have discovered:

In deciding what to privatize, the Federal Government should follow the lessons of America's most successful companies. It is one thing to privatize the production of goods and services. But no organization can pursue its mission effectively if it does not retain the ability to assess what it wants to do, how best to do it, and what others are doing on its behalf.

STEERING GOVERNMENT

The one, core element of every major governmental reform, abroad and in the United States, is a revolutionary focus on performance. Instead of judging success by the amount of money spent, the reformers are demanding that government concentrate on the results it produces. In New Zealand, this comes through performance contracts between top bureaucrats and the government and by a dramatic increase in government workers competing with private companies for their own jobs. In Australia, this comes through program-based performance management that leads to performance-based assessment of managers work. In the United Kingdom's "Next Steps" program, it is leading to the creation of "agencies," semi-autonomous bodies charged with clearly defined tasks, driven by market-like, and measured against clear performance standards. Oregon state government has likewise challenged its managers to satisfy benchmarks defined through a lengthy process.

Despite the enormous cynicism of Americans, public opinion polling reveals that citizens retain confidence that government can work better if it is managed better. There is undoubtedly a crisis of governance, but that crisis is a crisis of performance, and it is a crisis that America shares with governments around the world. The most fascinating feature of public sector reform is the remarkable convergence of tactics around performance-based management. Sometimes market-like reforms, from increased privatization to more contracting out, drive the tactics. Sometimes they are based in creating more autonomy for operating units in exchange for accountability to clear performance standards. At the core of these varied tactics, however, is a dramatic move from judging government by inputs (how much money do we spend?) to outputs (what results do we produce?).

In the United States, the performance movement is still in its nursery. One of the most important steps was the passage, led by this Committee, of the Government Performance and Results Act (GPRA). GPRA commits the government to an aggressive, decade-long program to move the Federal Government toward performance-based management. Each federal agency, by the end of the ten-year phase-in period, will establish five-year strategic plans; performance measures to gauge their success in meeting the plans; and annual reports, based on those performance measures, on how well they have met their performance goals. Many agencies have launched pilot projects to test the approach, and OMB has pressed agencies to speed up the calendar for implementation.

Many reforms in the past have been oversold, and GPRA certainly is no magic bullet. Moreover, it is subject to the peculiarly American taste for reducing tough value judgments to measurement problems. At its core, GPRA is not about measurement, it is about communication: How does what we get from public programs shape what we spend and, in the end, what we decide we want? The task is daunting. Indeed, even the nations that have been at the job for a decade have yet to get it right. But the more important point is that they are still at it, for shifting the conversation to what we get from what we spend transforms political debate. The lesson:

If we seek to restructure government for symbolic reasons, we are likely to produce only symbolic results. Real reform requires focusing on performance: measuring results and building the incentives for government programs to achieve them.

CONCLUSION

I am not here today to stage a defense of the status quo, of government bureaucracy, or of government bureaucrats. We need to fundamentally restructure the Federal Government to reduce its costs and improve its performance. We need to redesign government bureaucracies, and we do not need as many bureaucrats as the Federal Government now employs.

But the inescapable lesson of the private sector is that, planned poorly, restructuring can fail and leave an organization worse off than before. A 1993 survey by the Wyatt Company of private sector restructuring found that only six in ten companies that tried to reduce their costs succeeded, and that fewer than half of companies that tried to improve productivity and profits achieved these goals. Restructuring succeeded when it was part of a clear strategy developed by top leaders and when it drove a more fundamental reform of the company. Companies that tried to take a short-cut were disappointed: Their performance continued to suffer and they had even less capacity to cope with the problems they faced.

In today's climate, the one thing the Federal Government cannot afford is to launch such a big effort only to fail. Private sector experience teaches that the effort to downsize government offers two choices: we could dumbsize, or smartsize. Deciding what we want government to do, and then building government's capacity to do it well, is the strategy to smartsize government. But in this approach, restructuring is the last step in launching reform, not the first. Structure is a tool, not a goal in itself. To begin with structure in an effort to achieve a symbolic victory is to risk sacrificing that symbol for long-run disappointment. That is the inescapable lesson that the private sector and other nations teach us.

Real reform has to be driven by the search for performance. That means concentrating from the bottom-up instead of from the top-down. Restructuring is the last step, not the first. To do it wrong risks driving costs up, not down; to worsen government's already troubled performance; and to further alienate already cynical citizens.

 PREPARED STATEMENT OF SCOTT A. HODGE

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

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

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

The American people elected a Congress last November that promised to be more aggressive at "reinventing" government than the White House has proven to be. And they elected a Congress to let Americans keep more of their own money to spend on things that are important to their families, rather than sending that money to Washington for bureaucrats to spend for them. The Fiscal Year 1996 budget should

establish a credible plan for reducing the deficit while allowing families to retain more of their earnings of taxes by providing tax incentives for savings and investment.

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

The Heritage budget plan overhauls the entire structure of the Federal Government by strengthening programs that are the core functions of a national government, transferring functions that are not proper federal activities to the states or to the private sector, and closing down obsolete and wasteful programs. Most Americans would be stunned to learn how old many federal programs and agencies really are. Large segments of the federal bureaucracy were created decades ago for purposes long since forgotten. Like any corporation undergoing serious restructuring, Congress needs to review obsolete activities. It is time, for instance, to strip out of the budget such pre-World War II programs as the Rural Electrification Administration, the National Helium Reserves, Impact Aid, and the Interstate Commerce Commission.

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

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

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

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

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

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

¹ *National Performance Review*, p. 49.

² *Ibid.*, p. 51.

³ GAO Transition Series, *Commerce Issues*, p. 9.

⁴ *Ibid.*

⁵ *The Federal Government's Export Licensing Process for Munitions and Dual-Use Commodities*, Special Interagency Review conducted by the Offices of Inspector General at the U.S. Departments of Commerce, Defense, Energy, and State, September 1993, p. 3.

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

An intensive privatization, or denationalization, effort to reassign essentially private functions to the private sector is long overdue in this country. Governments throughout the world, from Russia to Mexico and from Japan to Great Britain, have been redefining the role of government in a private economy. These governments are aggressively denationalizing state-owned enterprises, cutting subsidies to inefficient industries, removing barriers to private investment, and restoring property rights. Yet the U.S. government continues to control hundreds of private activities and functions such as public utility management, railroad services, small business loans, printing and publishing, agriculture subsidization, and oil extraction and storage.

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

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

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

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

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

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

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

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

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

The Department of Energy, like Commerce, is an agency in search of a mission. It was created as a Cabinet-level department in 1977 by President Jimmy Carter as a consolidated federal effort to address the energy crisis of the late 1970s. Fearing that international energy shortages were the wave of the future, the President felt a highly visible national agency was necessary to promote energy conservation, control federal supplies of power, and develop alternative sources of energy. However, the OPEC oil embargo collapsed after the creation of the Department—without any assistance from the DOE—and international oil supplies stabilized.

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

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

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

CONCLUSION

While a fundamental reorganization of the massive federal bureaucracy may seem a daunting task, it is one that, if properly conducted, will allow the Federal Government to properly carry out its core functions more efficiently and effectively. As I mentioned at the beginning of my testimony, the Heritage Foundation plan is a plan based on the themes of federalism, privatization, and an efficient delivery of core Federal Government functions. Only by adhering to these themes will you be able

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

⁷ *Ibid.*

to deliver on the mandate sent by the American people last November to re-create an efficient, yet limited, Federal Government.

APPENDIX

DEPARTMENT OF AGRICULTURE

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

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

DEPARTMENT OF EDUCATION

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

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

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

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

HUD-administered Community Development Block Grants would be eliminated.

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

DEPARTMENT OF INTERIOR

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

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

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

DEPARTMENT OF LABOR

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

DEPARTMENT OF TRANSPORTATION

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

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

DEPARTMENT OF VETERANS AFFAIRS

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

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

BUREAU OF NATIONAL STATISTICS

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

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

PREPARED STATEMENT OF MURRAY COMAROW

It is an honor to testify again before this Committee. As suggested by your May 9, 1995 letter, Mr. Chairman, my testimony is in two parts. First, an overview of the work of President Nixon's Advisory Council on Executive Organization, commonly referred to as the Ash Council, after its Chairman, Roy L. Ash, Litton Industries' President. Second, my present views on government reorganization.

Appointed on April 5, 1969, the Council's other members were Harvard business school Dean George P. Baker; former Texas Governor John B. Connally; former

AT&T CEO Frederick R. Kappel; and Richard M. Paget, president of a management consultant firm.

The Council's mandate was "to undertake a thorough review of the organization of the Executive Branch of Government." More specifically, it was directed to consider (1) The organization of the Executive branch as a whole in light of today's changing requirements of government; (2) Solutions to organizational problems which arise from among the 150 plus departments, offices, agencies and other separate Executive organizational units; and (3) The organizational relationships of the Federal Government to States and cities in carrying out the many domestic programs in which the Federal Government is involved.

Nothing much happened. Ash was heavily involved with Litton's corporate problems, so on June 2, 1969, President Nixon persuaded Walter N. Thayer, President of Whitney Communications Corporation, to accept appointment as Special Consultant to the President (the only Council member so titled) and as the sixth member of the Council. Reflecting the President's impatience, the White House announcement stated that Thayer "will have the responsibility for securing and organizing the Council's staff and directing its activities." I was with Booz-Allen and Hamilton at that time, having left government early that year. Thayer interviewed me at the suggestion of Kappel and Baker, with whom I had worked in another context, and offered me the Executive Director's job. I accepted for a maximum of one year, took charge of the staff Thayer had begun to shape, and recruited others.

Given the open-ended nature of the Council's mission, its relatively modest resources, and President Nixon's desire for quick results, the staff constructed a lengthy list of possible target areas for its consideration. The members directed the staff to prepare studies on:

- Executive Office of the President (4 memos)
- Oceanography and Atmospheric Programs
- Federal Organized Crime Strike Force
- Overseas Organization to Deal with Traffic in Narcotics
- Federal Organization for Environmental Protection
- Establishment of a Department of Natural Resources
- Federal Organization to Control Drug Abuse
- The Independent Regulatory Agencies
- Organization for Foreign Economic Affairs
- Organization for Social and Economic Programs

(The last two were completed after I left the Council on June 30, 1970)

There is no such thing as "The Ash Council Report." Its work is comprised of thirteen memoranda to the President on the ten matters listed above, 427 pages in all, ranging from August 20, 1969 to November 17, 1970. All but one, "The Independent Regulatory Agencies," were unanimous.

Two of the memoranda led to President Nixon's Cabinet reorganization proposals transmitted to the Congress on March 25, 1971. The Council's May 12, 1970 memorandum proposed a Department of Natural Resources (DNR) to be composed of all or parts of Interior, Agriculture, Corps of Engineers Civil Works, Atomic Energy Commission Civilian Power, NSF's Sea Grant Programs, Army's U.S. Lake Survey, Navy's National Oceanographic Data and Instrumentation Centers, Coast Guard's Data Buoy Program, and Commerce's Environmental Science Services Administration.

The Council's November 19, 1970 memorandum on Organization for Social and Economic Programs proposed that five departments and four agencies be restructured into three departments:

- Department of Human Resources (DHR)
- Department of Community Development (DCD)
- Department of Economic Growth and Productivity (DEGP)

DHR would consist of Health, Education and Welfare (minus certain construction programs); Labor's Manpower Administration and the Bureau of Employees' Compensation; Agriculture's Food and Nutrition Service; the Office of Economic Opportunity; Justice's Office of Science and Drug Abuse Prevention and the Narcotics Addict Rehabilitation Act Unit; the Railroad Retirement Board; and the Civil Service Retirement and Disability Fund.

DCD would consist of Housing and Urban Development; HEW's construction program for hospitals, and for community mental health and Indian sanitation facilities; Agriculture's Farm Home Administration, the Rural Community Development Service, and elements of the Extension Service; and OEO's Community Action Program, VISTA, Special Impact programs, and the economic opportunity loan program.

DEGP would consist of Commerce (excluding NOAA, which would go to DNR); Labor (excluding the Manpower Administration and Bureau of Employee Compensation, which would go to DHR); Agriculture (excluding the parts to be transferred to DNR, DCD, and DHR); the Small Business Administration; the U.S. Tariff Commission; Treasury's anti-dumping responsibilities; State's commercial attache functions; the Federal Field Committee for Development in Alaska; and the Appalachian Regional Commission's functions.

The rationale is summarized in a 25-page booklet issued by the White House Domestic Council on March 25, 1971, and in more detail in the Council's May 12, 1970 and November 19, 1970 memoranda. The end result would be eight cabinet departments: the four described above, plus State, Treasury, Defense, and Justice. It is fair to ask how the Council came to this result. The answer is simple and entirely conventional:

- We analyzed every government organization study back to Brownlow's in 1937, including both Hoover Commissions; the Rockefeller Committee which advised President Eisenhower, the Price 1964 Task Force; the Heineman 1967 Task Force; the Lindsay 1968-69 Task Force, and the academic literature.
- We interviewed several hundred present and former officials, business executives and others who dealt with the government, scholars, and individuals who had participated in past studies.
- We considered and surfaced multiple options for every reorganization, recognizing that no structural arrangement could possibly resolve all conflicts, or could realistically be regarded as a "solution."

From all of this the Council concluded that:

- Departments should be organized around broad missions and should seek to integrate the professional skills and governmental functions necessary to accomplish those missions;
- The number of departments should be reduced;
- Departments should group similar or interdependent programs together to avoid the need for excessive coordination and to permit decisionmaking on all issues relevant to their missions; and
- Departments should not be perceived primarily as a spokesman in government for one profession or clientele group.

These conclusions are drawn from Appendix I to the Council's November 19, 1970 memorandum. It is appropriately entitled "The Rationale for the Recommendations on Departmental Organization," and it may be of particular interest to the Committee.

The Council warned, and President Nixon recognized, that such massive changes would be resisted by dozens, perhaps hundreds, of interest groups. The Administration therefore encouraged the formation of a non-partisan citizens' committee, co-chaired by James Roach, General Motors CEO, and Terry Sanford, then President of Duke University. The "new" Office of Management and Budget put its shoulder to the wheel, and prepared four substantial studies for the Congress, one on each proposed Department.

Then came Watergate, and the effort collapsed, not with a bang, but a whimper. A quarter of a century has passed since the Council disbanded, and it would be foolish to suggest that its views are necessarily right for today. On the other hand, it was a serious professional effort and may be helpful to the Committee in the same manner as previous studies were useful to us. Remarkably consistent themes pervade all of the studies I have cited, regardless of party and ideology.

Turning to my present views, if I were challenged to isolate the central organizing principle for government, it would be to organize around *purpose*. It is at the core of the Council's logic. Defining that purpose, and deciding whether it is worth doing, should come well before organization theory enters the room. Many heavy thinkers make a good living saying obvious things in a stern voice. "First decide what to do—then decide how to do it." They are dead right, and the obvious needs repeating because it is often overlooked.

Take the case of the Atomic Energy Commission, organizationally flawed from the outset. It had two purposes, to promote the use of nuclear energy for civilian purposes, and to insure public safety. The former mission overwhelmed the latter, and it was essential that the incompatible couple get a divorce. The Council recommended that the nuclear power program be transferred to the new Department of Natural Resources. (It was ultimately transferred to the Department of Energy.) The licensing and regulatory functions were left behind, as it were, when the Energy Reorganization Act of 1974 established the Nuclear Regulatory Commission, a

sound move. The episode may be a metaphor for the limitations of even the best reorganization, since the NRC hardly distinguished itself in its early years.

In contrast to the AEC reorganization, which bifurcated an agency, the Council's recommendation to establish an Environmental Protection Agency merged seven elements of Interior, HEW, Agriculture, and AEC, much to the chagrin of the Cabinet Secretaries concerned. The Council was not predisposed to create yet another Federal agency, to put it mildly, and considered placing environmental responsibilities in an existing department, or in the proposed Department of Natural Resources.

In the end, however, it recognized that setting and enforcing environmental standards must be performed outside the affected agencies. It was the purpose—the mission—that drove the result, not mechanistic formulae such as "span of control" and their kind. (In the 1970s, I recall that the ideal span of control was seven; now one hears that we have too many supervisors, and that the magic number is fifteen. Both numbers seem to me useless, even as rough guidelines, for reasons I will be glad to explain.)

Following the logic of EPA, should the Congress create a Department of Science? Probably the worst organizational proposal in years. Placing scientists in a structured setting dampens the curious and somewhat mysterious conditions which seem to make for good science. In the glory days of Bell Laboratories, AT&T's corporate ethic was to hire top scientists and leave them alone. The result was an incredible surge of inventiveness.

Some reorganizations, such as the change from the Bureau of the Budget to the Office of Management and Budget, just don't work. I was heavily involved in that effort. The Council believed that BoB's management function had been slighted, and recommended changes to make management, not budget, the top priority. To drive the point home, we renamed BoB the "Office of Executive Management," later changed to OMB.

As you well know from your hearings a few years ago, Mr. Chairman, the effort failed. In fact, our changes made it easier for every subsequent administration to politicize the organization.

Many reorganizations do not meet expectations. Sound organization makes it easier for good men and women to do good work. A poorly designed organization makes it harder. Those goals are worth striving for, but we should not expect miracles. The other key factors that drive an agency are leadership, resources, and sensible procedures, and of these leadership is *primus inter pares*.

Further, even the most brilliantly conceived reorganization exacts a heavy toll. As anxiety pervades the institution, morale and productivity slump, effective work relationships are sundered, and many staffers look for other jobs. It is a fact of life that the best employees are the most likely to leave. In sum, reorganization is hardly cost free, and should be undertaken, if at all, only when the potential benefits well exceed the costs.

You also requested my views, Mr. Chairman, on

- when a function should be a cabinet department as opposed to a separate agency;
- when should it be a government corporation; and
- when should it be privatized or contracted out.

Cabinet departments should be those dealing with primary government functions which rightly claim presidential attention. As important as they are, education, veterans affairs, and the environment are not such functions. Creating cabinet departments to placate client groups is bad government. Has the creation of a Department of Education, which President Carter promised the teachers' unions, improved the status of education in this nation? Are veterans really better off today because they have a seat at the Cabinet table? As a teacher and a veteran, I intend no disrespect when I argue that they are not cabinet-level functions.

They represent, in fact, a disturbing trend toward more and more client-oriented agencies. Should we have a Department of Old People—a politically incorrect title only we septuagenarians may use? We may have one, I'm afraid: The Department of Social Security. Why not a Department of Oceanography, certainly an important function. Or NASA, a Department of Outer Space. Or a Department of Small Business, surely the life blood of our economy.

It is important to group interdependent programs in a mission broad enough to foster tradeoffs at the department level. Single client departments can't do that, with the result that inter-departmental conflicts are resolved in the White House often at levels well below the President and his senior advisors.

Government corporations should be considered when the government provides a commercial-type service or product. The U.S. Postal Service, whose basic statute requires serious amendment, is the most obvious example, and I urge the Committee

to look at it. Others are the Tennessee Valley Authority and Amtrak (nominally a private, non-profit corporation, but only the U.S. government has voting rights).

Congress has also established hybrid entities for various government purposes, with various measures of government influence: Conrail, Comsat, Corporation for Public Broadcasting, Fannie Mae, Freddie Mac, Sallie Mae, and Legal Services Corporation. These are not agencies or instrumentalities of the Federal Government, according to their statutes.

Privatization means different things to different people, and has created much confusion. I take it to mean a removal of a government function to the private sector. I distance myself from ideologues who reflexively recoil from such a step, and from those who reflexively favor it. Each such initiative should be analyzed on its merits, with due regard for the often overlooked Law of Unintended Consequences. Eric Severeid famously observed that "the major cause of problems is solutions."

Contracting out is a serious option. If private firms believe they can clean buildings, administer public housing, offer tax advice, maintain roads better and cheaper than government, they should be able to bid against government workers for the contract, except for core functions such as foreign affairs and the like. Contracting out has often, but not always, been successful. I would caution against any *a priori* assumption that it is automatically more effective and less expensive.

Thank you for the opportunity to testify, Mr. Chairman. I would welcome the Committee's questions.

PREPARED STATEMENT OF JEFFREY A. EISENACH

Mr. Chairman and Members of the Committee, it is an honor to appear before you today to discuss current efforts to restructure the Federal Government.

Before continuing, I should note that while I serve as President of The Progress & Freedom Foundation, a non-partisan research and educational institution, the views I express are my own and do not necessarily represent those of the Foundation, its board or other staff.

My testimony today is based on nearly two decades of work in government, academia and in the political arena on the role and structure of governmental institutions. I have held scholarly positions at the American Enterprise Institute, the Heritage Foundation and the Hudson Institute; taught economics and antitrust policy at the University of Virginia, George Mason University and Virginia Polytechnic Institute; and, served in government of the Federal Trade Commission and the Office of Management and Budget. My published work has included articles on Congressional reform, drug abuse policy, welfare, housing policy, government regulation, education policy, antitrust law, tort reform and the Federal budget. As President of The Progress & Freedom Foundation, I am currently overseeing major projects on telecommunications policy, pharmaceutical and medical device regulation, urban policy, public assistance and energy policy.

In addition, I have recently co-authored a book, *The People's Budget: A Common Sense Plan for Shrinking the Government in Washington*, which is being published this month by Regnery publishing. Pre-publication copies of *The People's Budget* have been sent to your offices. Many of the ideas I will offer you today arise out of that work, and I would like to recognize the role of my co-authors, Edwin Dale, Frank Luntz, Timothy Muris and William Schneider, Jr., in helping me develop the ideas contained in this statement.

I have four objectives in my testimony today.

1. To describe the fundamental changes sweeping through our society, and their implications for government.
2. To define an overall approach to restructuring the Federal Government in accordance with these changes.
3. To explain several key principles that should be applied as restructuring goes forward.
4. To offer a few examples of what it means to apply these principles to the current programs of the Federal Government.

* * *

First, we live in a time of big change. What does that mean? It means that very basic forces are in the process of restructuring the way we live—our cultural, economic, political and social institutions are changing very profoundly and very rapidly.

The single most elegant and insightful explanation of the changes we are living through is captured in Alvin and Heidi Toffler's concept of *The Third Wave*. As the Tofflers explain it, there have been three waves of change in human history:

- The First Wave of change was the transition from a hunter-gatherer society to an agricultural society, and brought with it, for example, the notion of villages and towns—stable communities and all the social structures that grew up around them.
- The Second Wave of change was the Industrial Revolution. It created the society we have all grown up in—a society in which big was better, standardization was the key to success, and mass production and mass communication dominated the way we lived.
- The Third Wave of change is catalyzed—but not narrowly defined—by the information revolution. To make a long story short, the collapse of the price of information has destroyed the economic underpinnings of industrial society. Standardization is being replaced by customization; mass communication is being replaced by a plethora of micromedia of all kinds; “Big is better” is being replaced by “Small is Beautiful”; economies of scale now work in reverse!

When the Tofflers wrote *The Third Wave* in 1980, it was seen as “futurism.” Today, it is current events, and the signs of rapid change are all around us—in the increase in service jobs, in the downsizing of major corporations, in the fact that two-thirds of the net new jobs created in the last 25 years have been created by small businesses, and in the stunning fact, from Dun & Bradstreet, that fully half of the capital investment in the United States next year will be for telecommunications, computing and other information processing technology.

Last year, *The Progress & Freedom Foundation* published a monograph by the Tofflers, *Creating a New Civilization: The Politics of the Third Wave*. Now released by Turner Publishing, the book is currently sixth on the New York Times paperback bestseller list. Copies of the book—a very concise treatment of the implications of the Third Wave—have been provided to you and your staffs along with this statement.

I should also note that while I have found the Toffler's analysis the most helpful to me personally, they are by no means alone. For example, Peter Drucker's recent work, *The Post-Capitalist Society*, tracks very closely with the Toffler's thesis and its implications; George Gilder, in *Microcosm* and his forthcoming *Telecosm*, comes to many of the same conclusions; and, W. Edwards Deming's theses of “continuous improvement” and “profound knowledge” are entirely consistent with the world of change the Tofflers describe.

Let me now bring all this back home to the role of government, and especially the Federal Government.

The central organizational paradigm of industrial age society was bureaucracy. Today, the word is taken almost as an epithet. But at one time, bureaucratic organization was the centerpiece of a reform movement in America—the progressive movement—which proposed to replace the corrupt political machines of the late 19th and early 20th century with a theory of “scientific management.” This approach—developed by Max Weber in Bismarck's Germany and imported into American business practice by Frederick Taylor—entered American government through a succession of “progressive” Presidents, most notably Herbert Hoover and Franklin Roosevelt.

In a time when information was dear, bureaucracy was a means of organizing it, creating, as it were, a “priesthood” of civil servants tasked with mastering particular fields of knowledge. By learning all there was to know about their subjects, they were expected to make the wisest possible decisions—based on scientific knowledge—and so direct society in the “right” direction.

Let me be clear about something: This system worked. In the private sector, it gave us AT&T, General Motors and IBM. In domestic government, it produced the interstate highway system and landed a man on the moon. It won World War II, created NATO and ultimately defeated the Soviet Empire.

Let me be equally clear, however, about something else: That system is over. It died with the fall of the Soviet Empire, the downsizing of IBM and General Motors and the breakup of AT&T.

In one place in the world—literally—it lives on. Right here. It lives in practice—in our outmoded models of regulation and the provision of public assistance, in large expanses of the Pentagon, and in the way the government—including the Congress—organizes itself.

Worse, it lives on here in Washington not just in what we do but in how we think. To take one example—there are plenty to choose from—consider the article in this week's *Washington Post* by Vice President Gore on telecommunications policy.

"What My Father Helped Build with Concrete and Asphalt, We Now Build with Glass and Copper," it was titled, and its thesis is that the central challenge of the information age is to build an "information superhighway" analogous to the interstate highway system of the 1950s.

But the centralized, bureaucratic system that built the interstate highway system is dead. "Cyberspace" is being built by hundreds of thousands of entrepreneurs and individual hackers, working on their own, through informal associations or tiny software firms, or as part of team-based, "virtual" companies like Microsoft or Sun Microsystems. Meanwhile, the Federal Government—whose bureaucracy-based approach delayed the new PCS technology by at least six years and delayed cellular telephony by at least a decade—is notorious for still relying on outdated, mainframe computers, which the private sector now tellingly refers to as "legacy" systems. Why would we think a system that is still using vacuum tubes computers at the Federal Aviation Administration ought to be designing (much less building) a national information infrastructure?

Do not, however, think that the lessons of the Third Wave are limited to our approach towards information technology policy. In every aspect of the private sector, from the manufacturing sector (e.g. Ford Motor's recent announcement that it is shortening its product development life-cycle from 36 months to 24 months) to public assistance (where people increasingly understand that small, volunteer-oriented community groups are dramatically more effective than bureaucratic government programs), the demassifying force of the Third Wave is affecting every aspect of our society.

In short, bureaucracy is obsolete in every aspect of human activity. This is not a matter of ideology. It is a matter of fact.

This fact leads directly and unavoidably to two conclusions that ought to intimidate all of us at least a little:

1. *A very significant proportion of the Federal Government we have today is obsolete. The challenge for this generation of policymakers is no less than remaking much, probably most, of what it does.*
2. *Everything we know about how to create and run Federal programs is questionable, and most of it is wrong.*

* * *

If these conclusions are correct, the next step of the analysis is straightforward. The question is, "What overall approach should be taken towards restructuring the Federal Government?"

Let me answer by suggesting that there appear to be two basic approaches now on the table.

The first approach is called "reform." Its thesis is that the current set of programs can be made to work more efficiently and more effectively through relatively marginal changes. By changing incentives, rewriting the criteria in authorizing statutes, hiring new management and generally eliminating "waste, fraud and abuse," this approach would argue, we can dramatically improve the results from the current system.

The problem with this approach is that it has been tried, and it has failed. How many times must we try to inject economic analysis into regulatory decisions, or "re-make" the Department of Housing and Urban Development, how many "Grace Commissions" and "Reinventing Government" initiatives must we watch fail before we recognize that the current system cannot be improved through improvement on the margin? Gorbachev's "Glasnost" was not going to save Soviet-style socialism, and no amount of "reform" within the current U.S. government will make "work" in the sense most people understand that word in 1995.

The second approach is called "abolishment." Its thesis is that the problem can be solved by going through the Federal organization chart and eliminating agencies or departments. Abolish Commerce. Abolish Education. Abolish Energy. Etc., etc., etc.

Without any question, there are many functions the Federal Government is now performing which it should simply stop, and many, many areas where duplicative and overlapping functions can be consolidated—simplifying the organization chart and "abolishing" departments and agencies as a result. But these are, if you will, the "easy" cases—analytically if not politically. In most areas, the notion of "abolishing" may apply to a box on an organization chart, but does not apply to the underlying function that box is supposed to perform. We may, for example, "abolish" HUD—but a Federal role in the national marketplace for home mortgages will persist, even

if only in common law, simply because it is a national market. "Abolishment" can therefore serve as a means of avoiding the hard questions.¹

This brings me to a third approach, which I hope you will consider carefully in your deliberations and adopt as your model as you move forward. It is called *replacement*. What it means in practice is starting with a clean sheet of paper and asking the question, "Suppose we were trying to achieve X, what would we do?" This is what distinguishes it from the "reform" approach, which begins by asking "How can we do what we are doing better?" Reform starts from what we have. Replacement starts from what we need.

The replacement approach differs from the abolishment approach in an equally important way: It recognizes that in many or even most areas of current Federal activity, there is some legitimate Federal role.² The problem—or at least one important problem—is determining how to replace bureaucratic systems developed over the past six decades with entrepreneurial, incentive-based, "Third Wave" systems that will get us where we want to go much more efficiently.

* * *

My third objective here is to explain the principles that ought to guide the replacement approach I have suggested.³

First, it should be noted that the replacement approach begins by asking the question "What is it we are trying to accomplish?" Or, as Deming would have put it, "What is our aim?" Replacement forces this question to be asked.

Asking this question is important for two reasons. In the first place, it surfaces the most profound questions of the role of government, questions that must be constantly asked and answered in a functioning democracy. Second, it also forces and illuminates the question of measurement. "If we are trying to accomplish X, how will we know whether we have succeeded?"⁴

This, then, is the first principle I recommend to you: Replace current institutions with systems that have clearly defined, quantifiable objectives and hold those systems accountable for achieving those objectives.

Second, I would suggest to you that you cannot define your objectives without first defining your customers. Is it the teachers union, or the student? The corporate shareholder, or the consumer? Are you trying to minimize the burden on the Federal bureaucrat, or maximize the value created for the citizen? And, where does the taxpayer fit into the mix?

We all think we know the answers to these questions—they seem obvious enough in principle. But the fact is that they are complex, difficult questions, and those in the private sector who have stopped long enough to ask the question "Who are our customers?" have often come up with answers very different from what they unthinkingly assumed. (I would offer as an example the following thought: Among the customers of the Federal Trade Commission, an agency with which I am particularly familiar, are the companies it regulates. Part of its job is to provide them with a clear legal framework within which to do business. A measure of the FTC's success in serving this customer group would be the number of enforcement actions filed—which we now see to be a measure of failure, rather than success!)

The second principle of replacement, then, is that each Federal activity should identify clearly the customers it is trying to serve.

Third, and related to the example just mentioned: One of our most immediate and obvious objectives should be to replace complex, ambiguous, often arbitrary laws and regulations with a lean and effective framework of laws and institutions.

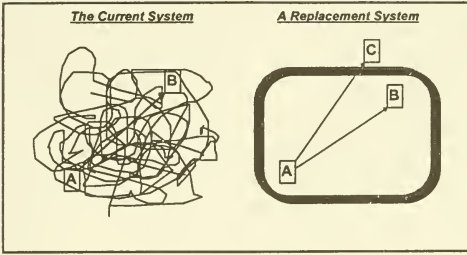
Allow me to illustrate this point by referring to the figure below:

¹ A related and even less helpful approach is "reorganization"—which in practice means moving the boxes around on the organization chart. Its largest single effect would appear to be increasing slightly Federal outlays for building signs, business cards and stationery.

² We will return to the nature of this role below. In any case, it seems fair to assume that the great questions of "what the Federal Government ought to do" will in large measure be determined elsewhere, and hence that the committee's main interest is in how to accomplish those things the Federal Government, for better or worse, decides to do.

³ Many of the ideas in this section have developed out of conversations with Dr. Barbara Lawton, an Adjunct Fellow at The Progress & Freedom Foundation and Deming Professor of Management at the University of Colorado at Boulder School of Business.

⁴ If there is any doubt that this question needs to be asked and answered more frequently, and with more follow through, that is currently the case, I would simply refer you to the Clinton Administration's current budget—which concludes, to take one example, that it is impossible to demonstrate any positive impact of the Federal Chapter One program for disadvantaged elementary and secondary. Apparently the purpose of this program is something other than increasing educational achievement, however—because the Administration concludes from its analysis that the appropriate thing to do is increase funding for the program!



The current bureaucratic system—the picture on the left—is complex, ambiguous and arbitrary. Imagine yourself a customer of this system—a citizen wanting to know whether it is permissible to do something new or different, i.e. to move from point A to point B. (For example, produce and market a new product.) What you face today is a gauntlet of legal and regulatory hurdles: Before moving from A to B, you must ask permission from “the system,” usually from more than one part of the system. Each part of the system has different standards, different deadlines, different forms—and even if you are confident that it will ultimately be “ok” to go from A to B, you have no way of knowing how long the process will take, or how much it will cost.

The most obvious effect of such a system is to discourage change. In times of stability, the damage done by discouraging change is arguably rather small. There’s not that much change to discourage, and the benefits are relatively limited. But in times of change—times like these—the costs can be dramatic. They take the form, today, of millions of consumers denied the benefits of new information technologies (The FCC’s decade-long delay in licensing cellular telephone technology, for example, has been estimated to have cost consumers \$85 billion!) or, more troubling still, of Americans dying for lack of access to medical technologies already on the market in other nations but still trying to get past some piece of spaghetti at the FDA.

A second effect—less obvious but perhaps ultimately more destructive in a free society—is that a customer starting out at Point A sees nothing but a sea of ambiguity. The regulatory and legal system is so nuanced and so arbitrary that it becomes impossible to tell what is legal and what is not—it is, from the perspective of the citizen-customer, without meaningful borders. The end result of such a system is that people lose faith in a legal system they cannot understand and whose limits they cannot predict with any reasonable certainty.

The alternative is to create a lean and effective framework of laws and institutions that tells people clearly what is allowed and what is not. Such a system is represented by the picture on the right: If you want to move from point A to point B, you move there—no permissions, no forms, no bureaucratic delays. But equally important, you know that if you move from point A to point C—you go (figuratively if not literally) “to jail.”

The third principle of replacement, therefore, is to replace complex, ambiguous and arbitrary systems of regulation with lean, effective frameworks of laws and institutions.

The fourth principle I would offer today must be credited to David Osborne—the idea that government ought to “steer the boat rather than rowing it.” What Osborne means is that government ought to create the incentives by which national objectives are met, rather than setting up large institutions and spending programs to accomplish them itself. One of the beneficial aspects of the use of incentives, of course, is that it allows for diversity of practice (i.e. for a shared goal to be accomplished in whatever way makes the most sense in a given set of circumstances) and encourages innovation (i.e. for people to invent new better ways of getting things done).

To Osborne’s basic point, I would only add the following: In a world of inverse economies of scale, where big is generally *less* efficient than small, a system based on incentives places the responsibility for actually doing things on individuals and small groups—i.e. on those who can do it most efficiently. From public assistance

to retirement income, transferring *operational* responsibility from large bureaucracies to individuals and small groups must be a major principle of replacement.

The fourth principle of replacement is to replace government activities with government incentives and get the government out of the "doing" business.

My fifth and final suggestion is also borrowed, from the Honorable Preston Manning, leader of Canada's Reform Party. In a recent meeting, Mr. Manning drew the distinction between privatizing and personalizing government programs.

Privatization has been applied in many areas of the Federal Government, but with mixed results. NASA, I would argue, is a case of massive privatization that has failed quite miserably. Why? Because privatization took the form of contracting out functions performed by large, inefficient government bureaucracies and turning them over to large, inefficient private bureaucracies. It is worth remembering, in this context, that the same system of top-down centralized decisionmaking that was adopted by the Federal Government was also the model, for at least 50 years, for private business. And private businesses that have not yet made the transformation are not necessarily any more efficient than their bureaucratic government cousins.

The fifth and final principle is that replacement should focus on moving from large, bureaucratic, inefficient systems to small, decentralized, efficient ones.

At this point, let me return briefly to the question of the appropriate role for the Federal Government, and to my perhaps controversial assertion above that "in many or even most areas of current Federal activity, there is some legitimate Federal role." Libertarians may balk at this statement—but only, I believe, because they define more narrowly than I do the words "Federal role." A "Federal role" does not necessarily mean hiring civil servants to hand out money, or empowering regulators to micromanage businesses. Indeed, the *grand dame* of Libertarian thought, none less than Ayn Rand, wrote in 1964 that:

"It is the proper task of government to protect individual rights and, as part of it, formulate the laws by which these rights are to be implemented and adjudicated. It is the government's responsibility to define the application of individual rights to a given sphere of activity—to define (i.e. to identify), not create, invent, donate or expropriate. . . . In most cases, the American government has been guided by the proper principle: It sought to protect all the individual rights involved, not to abrogate them."

This one paragraph explains a great deal of what the Federal Government does today. From the air to the airwaves (the topic Rand was addressing in the article just quoted), from mortgage markets to shareholders' rights, the Federal Government has an essential role to play in defining who owns what, what constitutes trespass or tort, and how transgressions and "thefts" are to be adjudicated. As I have suggested above, I believe it fulfills this role very poorly. But it is an appropriate role.

A second area where government would appear to have a role is as an agent for its citizens in accomplishing shared goals and imposing common obligations. A simple example will do: Americans have decided that they do not wish to be confronted with the moral dilemma of elderly people who chose not to save for their retirement.⁵ Thus, we have collectively decided to impose on each working citizen a requirement to put aside money for their retirement. Leaving aside, for a moment, the question of whether the current Social Security system is a wise way of acting on that decision, the decision itself is surely a legitimate one in a democratic system.

* * *

Finally, let me offer four very quick examples of what the replacement model means in practice.

First, the truth is that Social Security is not a very effective means of saving for retirement. It is one thing to require people to save, and something else to make them save through a system that—at best—offers rates of return vastly lower than those in the marketplace. Replacing the Social Security system with an IRA-based system that retains the "forced saving" component but creates choice in how the saving occurs is consistent with the principle of replacing "doing" programs with "incentive" programs and of personalizing (not "privatizing" per se) responsibility.

Second, the Federal Communications Commission is a prototypical, industrial-age, "spaghetti-style" regulatory agency. It is not the worst, arguably, as such agencies go—but it is distinguished by one very important characteristic: The industry it is regulating is the most change-oriented industry in history—literally. New tech-

⁵The dilemma, simply put, is that we don't want to reward them for their profligacy or lack of foresight—but neither are we prepared to let them live in poverty as punishment.

nologies rise and fall well within the decision cycle of the agency, and the positive, transforming catalyst of the Third Wave, the information revolution, is crippled as a result. Entrepreneurs simply *must* have the freedom to move "from A to B" without having to wait years for permission. Next week, The Progress & Freedom Foundation will release a detailed proposal for *replacing* the FCC with precisely the kind of lean, effective framework of laws and institutions I have suggested.

Third, I would suggest to you that our system of institutional compassion must be reexamined and replaced with a decentralized and ultimately person-to-person approach. The effort, begun in earnest in the 1960s, to take the bureaucratic model that worked at Normandy and built the interstate highways and apply it to saving individuals in need of help has simply not worked. We need to repersonalize compassion, perhaps—as Congressmen Kolbe and Knollenberg have suggested in legislation introduced in the House—by replacing the current system of mandatory government compassion with a dramatic increase in the tax incentives for giving to private charities that help those in need.

Fourth and finally, I would ask you to consider carefully the current faith being placed in block grants—not only for public assistance but for all sorts of undertakings, from education to housing to worker retraining. Why should money be collected from citizens and sent to governors, "no strings attached"? Who are the customers for such a program—the citizens, or the governors?

How will you measure the success of such efforts when the very essence of the approach is to eliminate accountability? (Isn't this what "no strings attached" really means?) Block grants are potentially no different from the worst forms of privatization, simply moving responsibility and authority from one inefficient bureaucracy to another. A better approach would be to recognize that most of the programs for which block grants are either already in place or being contemplated are simply not Federal responsibilities in the first place.

* * *

The fundamental transformation now underway in every aspect of our lives will, sooner or later, transform the Federal Government as well. The last great redoubt of Second Wave bureaucratic power on the planet, despite having just recently been the most successful institution, arguably, in human history, cannot forever withstand the forces now at work. Within a decade, it will be much smaller, much less bureaucratic, much less intrusive in the lives of its citizens. To ignore these facts is to ignore every bit of evidence about what is happening around us every day, everywhere.

The only question is how the transformation will occur.

The Chinese have an interesting approach to change, implicit in their written language. The Chinese character for change, it turns out, is actually a combination of two figures: The figure for danger, and the figure for opportunity.

We live in a time of great change—of great danger and of great opportunity. If we recognize what is happening and move quickly to capitalize upon it, we can create a Federal Government that once again contributes mightily to America's progress and is again a source of pride for its citizens.

Mr. Chairman and Members of the Committee, that completes my testimony, and look forward to any questions you may have.



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