TURNING BUREAUCRATS INTO PLUTOCRATS: CAN ENTREPRENEURIALISM WORK IN THE FEDERAL GOVERNMENT?

HEARING

BEFORE THE

SUBCOMMITTEE ON THE FEDERAL WORKFORCE AND AGENCY ORGANIZATION

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED NINTH CONGRESS

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TURNING BUREAUCRATS INTO PLUTOCRATS: CAN ENTREPRENEURIALISM WORK IN THE FEDERAL GOVERNMENT?

WEDNESDAY, JULY 13, 2005

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON FEDERAL WORKFORCE AND AGENCY ORGANIZATION,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:08 p.m., in room 2154, Rayburn House Office Building, Hon. Jon C. Porter (chairman of the subcommittee) presiding.

Present: Porter, Davis of Virginia, Issa, Marchant, Davis of Illinois, and Norton.

Staff present: Ron Martinson, staff director; Chad Bungard, assistant staff director/chief counsel; Christopher Barkley, professional staff member; Patrick Jennings, OPM detailee serving as senior counsel; Mark Stephenson and Tania Shand, minority professional staff members; and Teresa Coufal, minority assistant clerk.

Mr. PORTER. I would like to bring the hearing to order.

We meet today for a hearing on "From Bureaucrats to Plutocrats: Can Entrepreneurialism Work in the Federal Government?" I think that is a very good question, and we have some experts here today to help address that specific question. But before we get into our visitors and special guests, I would like to say a few words from my perspective.

Prior to having the honor of serving in Congress, I had the opportunity to have my own business for almost 20 years. Also, I grew up in a family of small business, where my mom and dad spent the better part of every evening at the dinner table talking about the challenges of that entrepreneurial spirit of trying to have their own business, and understanding the challenges of meeting a payroll, understanding expectations of customer delivery, and, more importantly, to make sure they could take care of their customers.

But today I think there are a lot of questions when it comes to entrepreneurial spirit and what that really means. In the private sector, when we talk about entrepreneurial spirit, it is someone that hopefully has innovation; hopefully has the ability to make tough decisions, but also lives with those ramifications, both positive and negative; has to do with the direct return on investment. An entrepreneur in the private sector is an individual that under-

stands that the harder the work, the better they perform, the more efficiently they perform, the better return on their investment, and by making their customers happy, they too can reap in the benefits of that success.

There are very few places in the world like the United States where we have this entrepreneurial spirit, and that is one of the things that makes this country so great. It is that American dream to be able to have ownership, whether that be your own home or your own business, or whatever that is of your job. You may be an employee of a corporation or the Federal Government. But the American dream is based upon the entrepreneurial spirit, and that is what built this country.

But many times when I talk to my friends and colleagues in the public sector, when we talk about entrepreneurs, there are lots of emotions, from a resentment in some cases, there are folks in the public sector that may not particularly care for those in the private sector and those that are entrepreneurs because they don't really understand it; they are threatened because many times those in the public sector don't really understand what it is like to be an entrepreneur, and don't necessarily understand what it is like to have ownership. And I think probably the fact that they can feel threatened or even some resentment or even a fear I think is really based upon a true misunderstanding of the entrepreneurial spirit.

Now, books have been written and there are different experts—and we are fortunate today to have some of those experts—but there is also a book out there—and I meant to get the name, but I am sorry—but it is called "E Myth," where those that believe that the entrepreneurial spirit is only a piece of a system and in the private sector provides for that spirit by putting systems in place that show accountability so employees and management and ownership understand when there is success and when there is failure.

One of the challenges that we have is that many times, especially in the Federal Government—and it isn't for a lack of quality employees; I think we have some of the best and the brightest in the world working for the Federal Government—but I think our current system can really stifle some of their success. I think that our system can encourage success only to get the job done and check out for the rest of the day at times. And, again, this isn't all employees, but I think that our system in the Federal Government sometimes does not foster ownership for the employees, does not foster the entrepreneurial spirit, does not foster success.

But I also know that the current system provides a lot of comfort. And we have spent a lot of time the past 6 months, and even prior, looking at pay-for-performance from the Department of Defense; in the Homeland Security Department we are looking at the balance of the Federal employees being placed in a pay-for-performance situation. And I hear frequently from employees that they are just concerned because they don't understand the direction of this committee and the direction of the committee. But part of our job is going to be to educate Federal employees to understand what our goals are and our mission. And that is where we run into problems throughout the Federal Government. At times our employees just don't know what their role is.

Now, firsthand, I think my colleagues on both sides would probably agree that a better part of our job is trying to take care of our customers, that is, our voters, our communities, our States. And a lot of times, of those responsibilities, it has to do with a customer or a constituent that is frustrated with the Government; they don't know where to turn. They may have been waiting months for a Social Security check or for a Medicare situation or a single mom that has challenges. But I know we receive hundreds of letters, if not thousands, from constituents that are frustrated with the Federal Government and with different government.

Now, I am also a realist. Many folks don't know the difference between a Congressman and a State Senator or a city councilman. They are just looking for help because they are frustrated. They are frustrated because they can't get a door open when they are in need. So I do know that we spend a lot of time, as Members of Congress, trying to provide customer service because possibly a Federal agency hasn't really followed through as it should.

Now, I will reiterate. We have some of the absolute best and brightest, and we want to make sure we can encourage that. But I believe that in government, not unlike the private sector, we can no longer do business as usual. We are in a global economy, and that means the Federal Government is in a global economy.

For us to survive, we have to take care of our employees, who then will take care of our customers. And I also know that those races run by one horse don't normally run as fast as when there are multiple horses. So we want to make sure that there is some competition that is attainable, where the best and the brightest that we already have will survive and will become far more encouraged to provide that customer service.

But as we look at this global economy, we are also facing a lot of changes. And my son and daughter—my son will be 27 tomorrow and my daughter is 24—they are accustomed to an awful lot of choices. Now, Speaker Gingrich is here, and I know when we were growing up we had chocolate and vanilla ice cream; we didn't have 500 flavors. We didn't have 250 radio stations to choose from, we had one, maybe two AM stations. At least I did in my small-town in Iowa.

But our future generation is really accustomed to a lot of choices. And they also expect customer service, as we do, but as we evolve and we provide entrepreneurial spirit for our employees, they too can serve this whole new generation that is, one, demanding higher and better service; demanding success in a global economy, where we are competing with China, we are competing with other countries as we look at the global economy; but also when we look at technology. And I know that the Speaker is here today and will touch upon some of the technology in health care delivery, but it is the same in public service.

So I am excited to have the hearing today. There is a lot that we can do. And I know that as a chairman of a committee that looks at the employees and looks at the agencies and how they take care of their customer service, I want to make sure that we can provide not only the best training—which I think we do—but empower public employees, Federal employees, to share in that suc-

cess of working hard and receiving the benefits of that delivery of the best and most courteous customer service there is.

Now, the hearing today is going to, again, cover a lot of areas, but I also want to address that tomorrow, along with Chairman Davis, we are going to be introducing a bill to create what is called a Results Commission, which will examine Federal agencies for their effectiveness. And later this month the subcommittee will hold a hearing to continue its look into how the Federal Government can free itself from burdensome bureaucratic processes and maximize the use of information technology in the important arena of health care.

And to bring the discussion to reality, I want to thank a couple of folks that have excelled above and beyond. There is a young woman from the Las Vegas Social Security Office that went out of her way to help one of my constituents, Linda Ng; another individual, Kania Boltman, outstanding service in the Congressional Inquiry Division. We can go on and on and talk about those folks that have that entrepreneurial spirit and are delivering services.

There is a Mr. Brad Gear at the Federal Emergency Management Agency. His task was to oversee the long-term recovery after the destruction of the World Trade Center in New York. It was estimated that it was going to cost around $7 billion to clean up around Ground Zero. He was able to successfully complete the task in 6 months at $1.7 billion.

So there is a lot of creative thinking happening. The purpose of the hearing today is to try to find a way to encourage that throughout the Federal Government.

So can entrepreneurial spirit work in the Federal Government? I believe it can, and it is my privilege today to, again, have some of those experts that deal with this on a daily basis. Each one brings a unique perspective, and we look forward to lively debate and discussion.

First, we are going to hear from the former Speaker of the House, Mr. Newt Gingrich. Speaker Gingrich has written a thought-provoking paper on how to reform the Federal Government by fostering entrepreneurialism amongst the work force. And, of course, he has had his leadership in many areas, but also will be touching upon health care.

Next, we will be introducing the Comptroller General of the United States—another entrepreneur in government, which I think is a real compliment—Mr. David Walker. He brings, of course, a wealth of experience in the private and the public sector at the GAO.

And last, we are going to hear from Maurice McTigue, director of Government Accountability Projects at the Mercatus Center who first-hand has helped change the thought process and the culture and experience in reforming the New Zealand government in his time as a member of parliament there.

So I would like to thank all three of you for being here today.

[The prepared statement of Hon. Jon C. Porter follows:]

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"From Bureaucrats to Plutocrats: Can Entrepreneurialism Work in the Federal Government?"

Subcommittee on the Federal Workforce and Agency Organization
Chairman Jon C. Porter
July 13, 2005

I would like to thank everyone for being here today.

Being a former businessman from the Las Vegas/Boulder City region of Nevada, the term *entrepreneur* is one I am not only familiar with, but it's a term that has come to have great meaning for the district I represent. Las Vegas and its surrounding areas have been the center of one of the fastest growing economies in the nation—in large part due to the entrepreneurs who go there to do business.

In the world of business, the label "entrepreneur" is well-worn, but in the Federal Government such a term is rarely used. The worlds of business and government are admittedly distinct in their purpose and in their processes, however, that does not mean that entrepreneurial thinking does not have a place in the Federal Government. To the contrary, the Federal Government needs to incentivize innovative thinking and ingenuity. The purpose of this hearing today is to consider how we might further develop an environment of entrepreneurialism in Federal agencies and, consequently, among the workforce.

The problem, as I see it, in the Federal Government today, is not that we lack hard-working employees, but that the processes they have to work under are stifling. Is it fair that we ask our Federal employees to not only compete with, but to outpace the private sector, and yet we require that they operate under yesterday's management practices? The obvious answer is no—there must be a better solution.

The solution must involve empowering our employees to be not merely administrators of programs, but managers of real problems. We must encourage our workforce to be innovative in their approach to solving the problems that face the American public. And to the degree that we allow our workforce to creatively accomplish the goals set by Congress, that is the degree to which they will act as entrepreneurs.

As we venture further into the Information Age, the trend has been to move toward a more results-oriented, entrepreneurial Government. Just over the past two or three years, this Subcommittee has helped oversee the human resources management system reforms at both the Departments of Defense and Homeland Security. Tomorrow, along with Chairman Tom Davis, I will be introducing a bill to create a Results Commission, which will examine Federal agencies for their effectiveness. And later this month, the Subcommittee will hold a hearing to continue its look into how the Federal Government can free itself from burdensome bureaucratic processes and maximize the use of information technology in the important arena of health care.

To bring the discussion out of the realm of the simply theoretical, I would like to share a real example of an entrepreneur at work in the Government: Brad Gair at the Federal Emergency Management Agency. Mr. Gair was tasked with overseeing the long-term recovery effort following the destruction of the World Trade Center in New York. It was estimated that to clear the debris from Ground Zero would take two years and $7 billion—Gair saw that it was done in 6 months for $1.7 billion. This kind of creative thinking, not mired by burdensome delays and processes, allowed him to come in early and under budget—the result of allowing employees to manage.

The question, then, is the one posed in the title of this hearing: Can entrepreneurialism work in the Federal Government? It is my sincere belief that it can.

It is our very great privilege to have some very distinguished guests here today to discuss this issue. Each one brings a unique perspective to the table and so we look forward to a lively and productive time together.

We will hear first from former Speaker of the House of Representatives, Newt Gingrich. Speaker Gingrich has written a thought-provoking paper on how to reform the Federal Government by fostering entrepreneurialism amongst the workforce. He has demonstrated tremendous leadership and intellectual rigor in this area since his time as Speaker and beyond, and we are very glad to benefit from his being with us today.

Next we are very happy to have the Comptroller General of the United States, David Walker, with us today. Mr. Walker brings with him a wealth of experience in public and private sector management and will share with us his ideas as well as his successes in transforming the Government Accountability Office into a high-performance agency.

Last we have the pleasure of hearing from Maurice McTigue, Director of the Government Accountability Project at the Mercatus Center. Mr. McTigue is an expert in Federal management issues and will share with us his thoughts on these issues as well as his experiences in reforming the New Zealand Government in his time as a Member of Parliament there.

Mr. PORTER. I would now like to recognize our ranking minority member of the subcommittee, Mr. Danny Davis, another entrepreneur in government.

Mr. DAVIS OF ILLINOIS. Well, thank you very much, Mr. Chairman, and I want to thank you for calling this very important hearing today.

Over the last several years, this subcommittee has held several hearings on Civil Service reform and government reorganization. At one such hearing, held in April 2003, the Comptroller General, David Walker, stressed that above all else "all segments of the public that must regularly deal with our Government—individuals, private sector organizations, States, and local governments—must be confident that the changes that are put in place have been thoroughly considered and that the decisions made today will make sense tomorrow." I agree with the Comptroller and look forward to listening and learning about practices and policies that will make sense for the Federal Government, Federal employees, and taxpayers today and tomorrow.

I also want to again thank Mr. Walker and our other witnesses for taking the time to testify at this hearing. Like you, I am certain that it will be a spirited discussion. And, hopefully, at the end of the day, we will have garnered some insight, information, and perhaps even expertise that would help move America forward.

So again I thank you for calling this hearing and I look forward to the testmiony of our witnesses.

[The prepared statement of Hon. Danny K. Davis follows:]

STATEMENT OF CONGRESSMAN DANNY K. DAVIS AT THE FEDERAL WORKFORCE AND AGENCY ORGANIZATION HEARING ON ENTREPRENEURIAL PUBLIC MANAGEMENT

Wednesday, July 13, 2005

Chairman Porter, this hearing will be very useful as we continue to examine how to make the federal government more effective and efficient.

Over the last several years, this Subcommittee has held several hearings on civil service reform and government reorganization. At one such hearing, held in April of 2003, the Comptroller General, David Walker, stressed that above all else "all segments of the public that must regularly deal with their government – individuals, private sector organizations, states, and local governments – must be confident that the changes that are put in place have been *thoroughly* considered and that the decisions made today will make sense tomorrow." I agree with the Comptroller and look forward to listening and learning about practices and policies that will make sense for the federal government, federal employees, and taxpayers today and tomorrow.

I want to thank Mr. Walker and our other witnesses for taking the time to testify at this hearing. I look forward to their testimony.

Mr. PORTER. Chairman Davis.

Mr. DAVIS OF VIRGINIA. Thank you very much. I am going to be brief, but I am really looking forward to the testimony of our three experts here in the first panel.

Mr. Speaker, you have been very creative in a number of ways in trying to make government work over the years. Politicians and the public alike take shots at bureaucrats, meaning Government employees, who are perceived as paper shufflers, long on procedures, short on results; many of them performing the tasks they were employed to perform, but filling out forms that probably should have never been printed; working under regulations that shouldn't have been written.

We bear some responsibility in that. And I think today we will talk about the laws, the procedures, the incentives that we give them to work under and how we can make them more productive.

I personally believe Federal employees want to be productive. I think they want to take pride in what they do. They want to show results. And sometimes we spend so much time and effort making sure nobody steals anything that they can't get much else done at the same time. We need to, I think, empower employees to make decisions and incentivize them in the right way, and I am really looking forward to your comments today.

Government isn't the private sector. We know that. We have to have a transparency and safeguards there that you will never get in the private sector. We don't have a profit motive that brings out inefficiencies because we are not competitive. But having said that, we realize that people are motivated by incentive, and we need to find ways to build incentives for Federal employees to take risks, to reward risks that achieve the results, not just to not make mistakes, which is so often what happens under the current system.

General Walker, you have been innovative in human capital reform at the GAO. You have told us reform is needed. You have identified areas that we need to focus on at this committee, and we hope to take further action in some of these as well. I can't think of too many other organizations in existence today that use methods that are 125 years old, but our Civil Service does. And it is time to review those and probably reinvent government.

And, Mr. McTigue, your reputation as an entrepreneur in government management and organization as a member of the parliament in New Zealand is legendary. I am pleased that you are currently affiliated with George Mason University out in my district, as well. The dramatic reforms you and your colleagues accomplished can be a model for us, a checklist, if you will, that we should look at in terms of moving our Government away from the bureaucratic to a more entrepreneurial model.

I want to thank everybody for your comments today and for being with us and being willing to take some questions.

Mr. PORTER. Thank you, Mr. Chairman.

Congresswoman Holmes Norton.

Ms. NORTON. Thank you, Mr. Chairman. This is an interesting hearing, and I am very pleased that you have chosen to have a hearing on this subject. I do want to especially welcome my good friend, Speaker Newt Gingrich. I will always remember Speaker Gingrich for his fairness to the District of Columbia, the energy he

put into the Capital of the United States, when he was speaker at a particularly trying time.

Some may be surprised to see Newt here talking about management of Government, but that is because you all don't know Newt Gingrich. I sometimes think that the word visionary was not coined until Newt Gingrich burst onto the public scene, because his visionary sense sometimes knows no limits. And I say that as someone, as Newt knows, who is not always in agreement with him. But Newt Gingrich is one of these people who it pays for everybody to listen to, whether you are one of his devotees or not. When Newt talks, just listen; it will perhaps help you to improve on your own adversarial approach to what he is saying or you may even adopt one of his ideas. So I especially welcome my good friend Newt Gingrich here.

Thank you, Mr. Speaker.

Mr. PORTER. Thank you very much.

I would like to ask unanimous consent that all Members have 5 legislative days to submit written statements and questions for the record, and any answers to written questions provided by the witnesses also be included in the record. Without objection, so ordered.

I ask unanimous consent that all exhibits, documents, and other materials referred to by Members and the witnesses may be included in the hearing record, and that all Members be permitted to revise and extend their remarks. Without objection, so ordered.

As you know, it is the practice of the subcommittee to administer the oath to all witnesses. If you could please stand, I would like to administer the oath. Please raise your right hands.

[Witnesses sworn.]

Mr. PORTER. Thank you. Let the record reflect that the witnesses have answered in the affirmative. Again, welcome.

Witnesses will each have 5 minutes for opening remarks, after which the members of the committee will have a chance to ask questions.

Mr. Gingrich, again, thank you very much. It is an honor to have you here. We appreciate your insights and thoughtfulness. You will have approximately 5 minutes.

STATEMENTS OF NEWT L. GINGRICH, FORMER SPEAKER OF THE U.S. HOUSE OF REPRESENTATIVES; DAVID M. WALKER, COMPTROLLER GENERAL OF THE UNITED STATES; AND MAURICE P. MCTIGUE, VICE PRESIDENT, MERCATUS CENTER AT GEORGE MASON UNIVERSITY

STATEMENT OF NEWT L. GINGRICH

Mr. GINGRICH. Thank you, Mr. Chairman. I want to thank you and the other members for your kind words, in particular the rather glowing comments of Ms. Norton. That alone was worth coming up here for. So thank you.

I have a very direct message, I guess, for the Congress, and that is that real change is going to require real change. That we keep trying to monkey around at the margins and somehow get dramatically better results. But, in fact, what we need is a very profound change, far more than just privatization. We also need to learn the

lessons of modern productivity and the lessons of modern quality, and then rethink from the ground up how Government functions.

Many of the things we as a people try to do together in our Government are extraordinarily important, life and death: the very education of our young, the protection of our country, key elements of transportation. And it is important to recognize that this is a city which spends almost all of its energy trying to make the right decisions and almost none of its energy focusing on how to improve implementing the right decisions. And, yet, without implementation, the best ideas in the world simply don't occur.

I am submitting for the record a paper on entrepreneurial public management. It is a term I use very deliberately. As Chairman Davis pointed out, we currently have a bureaucratic public administration model that has some 125 years of development. It was originally created when male clerks with quill pens were sitting on high stools, writing on paper from an ink bottle.

You now live in a modern world, and I think the standard you should set for the Government is the speed, agility, and accuracy of UPS and FedEx. Take a look at those two systems, and then come back and say, all right, if we want education to work, how do we get it to be that accurate? If we want health to work, how do we get it to be that effective? If we want intelligence to protect us from terrorists, how do we ensure that level of daily competence?

I outline 20 points in this paper on entrepreneurial public management—which I won't go over, but I will be glad to answer questions on—because I think it is a system's replacement problem. This is not marginally improving the system we have inherited; it is, in fact, replacing it with a profoundly different system. I think Congress has, in many ways, the major role to play, because most of the current system is inherently structured by law, modified by the way we do oversight, and reflected in our budgeting and appropriations process.

I would encourage you to have a series of hearings on demming the Toyota protection system and the nature of quality in the private sector, and to ask people who are actually practitioners to come in, explain why we are so dramatically more productive in the private sector, and then ask them what the basic principles would be for rewriting and redesigning our entire system of employment, of procurement, and of management.

I would also encouraged you to look at legislation to dramatically modernize the entire system. I would urge you to look at how the budget process today is anti-investment and traps us in failed systems of the past. And I would ask you to look at how the appropriations process tends to bias us against the kind of modernity that we need.

Let me just give you three quick examples of the scale of change I am describing.

The budget committees, and possibly this committee, should be holding hearings on the process by which the Congressional Budget Office and the Office of Management and Budget engage in scoring, because that very scoring shapes much of what we do. We had the experience in the last week of a 24 percent error rate in estimating the surplus or deficit for this year, that is, within the cycle of this

year. The CBO and OMB model was off by 24 percent. Now, if that is what we are relying on to tell us what we can invest in health care, or what we can invest in education, or what we can invest in a better environment, it is so central to our operating that it deserves to be open, transparent, and accountable.

Second, look at small symbolic changes that would be dramatic. As Ms. Norton pointed out, I am passionate about our national capitol truly being our national capitol. We should be looking at the National Zoo as an example of where a public-private partnership would radically improve the zoo, which will never be improved in the current bureaucracy under the current Smithsonian system.

Yet, over half the cities in the United States today, there is a public-private partnership: San Diego, arguably the best zoo in the world; New York City, arguably the best research zoo in the world; the Atlanta Zoo; the Memphis Zoo; the zoo in Birmingham, just to give you some examples.

You could combine the area out around Front Royal, that magnificent area, which could be the equivalent of the San Diego Wild Animal Park, and you could combine it with the zoo downtown. You could create a public-private partnership and within a very short time you would have vastly more money, vastly more energy, and you would have a better system, with better care of the animals, with better attendance, and everybody is a winner. But it is a different model than trying to funnel enough resources through the Smithsonian bureaucracy.

On a larger scale—I can't say this too strongly—our intelligence system is broken, and fixing the top of it with new names and new charts is irrelevant. Porter Goss ought to have the ability to block-modernize the entire staff of the Central Intelligence Agency. I will give you one example. This is something I have been working on for the last 2 weeks.

North Korea is a country we have been studying since 1950. That is 55 years. We have had 38,000 troops in South Korea for two generations. Sixty-five percent of our analysts don't read or speak Korean at all; 25 percent read or speak it partially; fewer than 10 percent of the analysts currently dealing with North Korea are fluent in Korean.

Now, this is a system of such stunning incompetence at a practical level that trying to marginally improve it over a 20 year period the week after the bombings in London ought to be a warning to all of us that we have to go to dramatic block modernization at the personnel level or we are going to risk getting killed.

One last example. It is fascinating that Amtrak, which is very, very important to the northeast corridor, cannot learn from the British experience, where the British have systematically modernized their railroads; privatized the operation away, which ended up being very acceptable to the British rail unions; and, as a result, the increase in traffic on the British railroads is larger than the total traffic on Amtrak.

And there is a model there worth looking at, because I don't care how much money this Congress spends on Amtrak. In the current model, with the current rules, under the current structures, it is going to fail, once again, for the 30th year.

So I just want to suggest to you this is about more than just privatizing out of the Government. It is also about bringing the best of the models of modern productivity into the Government. And I think the invention of entrepreneurial public management is one of the most important challenges that this Congress faces. And I thank you for allowing me to come here.

[The prepared statement of Mr. Gingrich follows:]

STATEMENT OF

FORMER SPEAKER OF THE HOUSE NEWT GINGRICH

BEFORE THE

SUBCOMMITTEE ON THE FEDERAL WORKFORCE AND AGENCY ORGANIZATION

WEDNESDAY, JULY 13, 2005

Chairman Porter, Ranking Member Davis, and members of the Subcommittee:

I appreciate the opportunity to testify today about moving the Federal Government to an "Entrepreneurial" model and away from its current "Bureaucratic" model so that we can get government to move at the speed and effectiveness of the Information Age.

It is simply impossible for the American government to meet the challenges of the 21st century with the bureaucracy, regulations and systems of the 1880s.

Implementing policy effectively is ultimately as important as making the right policy. In national security we have an absolute crisis of ineffective and inefficient implementation which undermines even the most correct policies and risks the security of the country. In health, education and other areas we have cumbersome, inefficient, and ineffective bureaucracies which make our tax dollars less effective and the decision of representative government less capable. People expect results and not just excuses.

To get those results in the 21st century will require a profound transformation from a model of Bureaucratic Public Administration to a model of Entrepreneurial Public Management.

As Professor Philip Bobbitt of the University of Texas has noted: "Tomorrow's [nation] state will have as much in common with the 21st century multinational company as with the 20th century [nation] state. It will outsource many functions to the private sector,

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rely less of regulation and more on market incentives and respond to ever-changing consumer demand."

It is an objective fact that government today is incapable of moving at the speed of the Information age.

It is an objective fact that government today is incapable of running a lean, agile operation like the logistics supply chain system that has made Wal-Mart so successful or the recent IBM logistics supply chain innovations which IBM estimates now saves it over $3 billion a years while improving productivity and profits.

There is a practical reason government cannot function at the speed of the information age.

Modern government as we know it is an intellectual product of the civil service reform movement of the 1880s.

Think of the implications of that reality.

A movement that matured over 120 years ago was a movement developed in a period when male clerks used quill pens and dipped them into ink bottles.

The processes, checklists, and speed appropriate to a pre-telephone, pre-typewriter era of government bureaucracy are clearly hopelessly obsolete.

Simply imagine walking into a government office today and seeing a gas light, a quill pen, a bottle of ink for dipping the pen, a tall clerk's desk, and a stool. The very image of the office would communicate how obsolete the office was. If you saw someone actually trying to run a government program in that office you would know instantly it was a hopeless task.

Yet the unseen mental assumptions of modern bureaucracy are fully as out of date and obsolete, fully as hopeless at keeping up with the modern world as that office would be.

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Today we have a combination of information age and industrial age equipment in a government office being slowed to the pace of an agricultural age mentality of processes, checklists, limitations, and assumptions.

This obsolete, process-oriented system of bureaucracy is made even slower and more risk averse by the attitudes of the Inspectors General, the Congress, and the news media. These three groups are actually mutually reinforcing in limiting energy, entrepreneurship, and creativity.

The Inspectors General are products of a scandal and misdeed oriented mindset which would bankrupt any corporation. The Inspectors General communicate what government employees cannot do and what they cannot avoid. The emphasis is overwhelmingly on a petty dotting the i's and crossing the t's mentality which leads to good bookkeeping and slow, unimaginative, and expensive implementation.

There are no Inspectors General seeking to reward imagination, daring risks, aggressive leadership, over achievement.

Similarly, the members of Congress and their staffs are quick to hold hearings and issues press releases about mistakes in public administration but there are remarkably few efforts to identify what works and what should be streamlined and modernized.

Every hearing about a scandal reminds the civil service to keep its head down.

Similarly, the news media will uncover, exaggerate and put the spotlight on any potential scandal but it will do remarkably little to highlight, to praise, and to recognize outstanding breakthroughs in getting more done more quickly with fewer resources.

Finally, the very nature of the personnel system further leads to timidity and mediocrity. No amount of extra effort can be rewarded and no amount of incompetent but honest inaction seems punishable. The failure of the system to reinforce success and

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punish failure leads to a steady drift toward mediocrity and risk avoidance.

The result is an unimaginative, red tape ridden, process-dominated system which moves slower than the industrial era and has no hope of matching the speed, accuracy and agility of the information age.

The Wal-Mart model is that "everyday low prices are a function of everyday low cost." The Wal-Mart people know that they cannot charge over time less than it costs them. Therefore if they can have the lowest cost structure in retail they can sustain the lowest price structure.

This same principle applies to government. The better you use your resources the more things you can do. The faster you can respond to reality and develop an effective implementation of the right policy the more you can achieve.

An information age government that operated with the speed and efficiency of modern supply chain logistics could do a better job of providing public goods and services for less money.

Moving government into the information age is a key component of America being able to operate in the real time 24/7 worldwide information system of the modern world.

Moving government into the information age is absolutely vital if the military and intelligence communities are to be capable of buying and using new technologies as rapidly as the information age is going to produce them.

Moving government into the information age is unavoidable if police and drug enforcement are to be able to move at the speed of their unencumbered private sector opponents in organized crime, slave trading and drug dealing.

Moving government into the information age is a key component of America being able to meet its educational goals and

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save those who have been left out of the successful parts of our society.

Moving government into the information age is a key component of America being able to develop new energy sources and create a cleaner environment with greater biodiversity.

Moving government into the information age is a key component of America being able to transform the health system into a 21st Century Intelligent Health System.

This process of developing an information age government system is going to be one of the greatest challenges of the next decade.

It is not enough to think that you can simply move the new developments in the private sector into the government. The public has a right to know about actions which in a totally private company would be legitimately shielded from outside scrutiny. There will inevitably be Congressional and news media oversight of public activities in a way that would not happen in the purely privately held venture.

As Peter Drucker warned thirty years ago in *The Age of Discontinuities*, the government is different. There are much higher standards of honesty and fairness in government than in the private sector. There are legitimately higher standards for using the public's money wisely. There are legitimate demands for greater transparency and accountability.

There are also legitimately higher expectations of accuracy. Just last week, in yet another adjustment to an earlier estimate, the Congressional Budget Office revised its budget deficit projections for this fiscal year. In less than six months, the CBO was off by nearly 12 percent. If the Office of Management and Budget agrees with the new CBO projection, its estimate will have missed the mark by nearly 24 percent—an error of more than $100 billion. How can our elected officials make informed policy decisions with such faulty analysis? We deserve honest answers.

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The House and Senate Budget Committees should hold hearings to reform the current CBO scoring processes because modernizing government starts with open and accurate budget projections. These projections must include the impact that proposed legislation will have on the private sector, not just its impact on the federal budget. For instance, federal spending that promotes health information technology or medical innovation has the potential to save countless lives and billions of dollars in the private sector. But without scoring these benefits CBO and OMB will never be able to distinguish between legislation as an investment and legislation as a cost.

All of these factors require us to develop a new model of effective government and not merely copy whatever the private sector is doing well.

That new model can be thought of as Entrepreneurial Public Management.

ENTREPRENEURIAL PUBLIC MANAGEMENT

The term Entrepreneurial Public Management was chosen to deliberately distinguish it from Bureaucratic Public Administration. We need two terms to distinguish between the new information age system of entrepreneurial management and the inherited agricultural age system of bureaucratic administration.

The one constant is the term public. It is important to recognize that there are legitimate requirements of public activity and public responsibility which will be just as true in this new model as they were in the older model. Simply throwing the doors open to market oriented, entrepreneurial incentives with information age systems will not get the job done. The system we are developing has to meet the higher standards of accountability, prudence, and honesty which are inherent in a public activity.

We have to start with a distinguishing set of terms because we are describing a fundamental shift in thinking, in goals, in measurements, and in organization. Changes this profound always

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begins with language. People learn new ideas by first learning a language and then learning a glossary of how to use that new language. That is the heart of developing new models of thought and behavior.

Shifting the way we conceptualize, organize and run public institutions will require new models for education and recruitment as well as for the day to day behavior.

We must shift from professional public bureaucrats to professional public entrepreneurs. We must shift from administrators to managers. The metrics will be profoundly different. The rules will be profoundly different. The expectations will be profoundly different.

A first step would be for Schools of Public Administration to change their titles to Schools of Entrepreneurial Public Management. This is not a shallow gimmicky word trick. Changing the name of the institutions that attract and educate those who would engage in public service will require those schools to ask themselves what the difference in curriculum and in the faculty should be.

The President, Governors, Mayors, and County Commissioners should appoint advisory committees from the business community and from schools of business to help think through and develop principles of Entrepreneurial Public Management.

PRINCIPLES OF ENTREPRENEURIAL PUBLIC MANAGEMENT

This is a topic which is just beginning to evolve. Over the next few years it will lead to books, courses, and even entire programs. Obviously it can only be dealt with briefly in this statement. For more information and for ongoing developments from the date of this testimony, go to www.newt.org and click on Entrepreneurial Public Management.

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The following are simply an introductory set of principles:

1. Every system should define itself by its vision of success. Unless you know what a department or agency is trying to accomplish (and has been assigned to accomplish by the President and the Congress), you cannot measure how well it is doing, how to structure the agency, how to train the employees so they can be an effective team. Definition of success precedes everything else.

2. Planning has to always be in a deep-mid-near model. For government deep is probably ten years, mid is about three years and near is next year. Unless the agency plans back from the desired future it is impossible to distinguish between activity and progress. In Washington and most state capitals far too much time is spent on today's headline and today's press conference and not nearly enough time is spent preparing for tomorrow's achievement.

3. Every agency and every project has to be planned with a clear process of:

    a. defining the vision of success;
    b. defining the strategies which will achieve that vision;
    c. defining the projects (definable, delegatable achievements; see below) necessary to implement the strategies;
    d. defining the tasks which must be completed to achieve the projects; and
    e. turning to the customers, the experts, and the decision makers and following a process of listen-learn-help-lead to find out whether your definition of success and definition of implementation fits their understanding. This process properly used turns every person into a consultant helping improve your planning and your execution.

4. The process of defining and managing projects will require profound changes in the laws governing personnel,

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procurement, etc. Projects are the key building block of Entrepreneurial Public Management. They permit the senior leader to delegate measures of accomplishment rather than measures of activity. A simple distinction is between asking bureaucracies to engage in cooking and asking someone to prepare dinner for 12 people at 8 o'clock tomorrow night for $11 a piece and making it Mexican food. The Bureaucratic Public Administration request for cooking allows the bureaucracy to report on activities (we are cooking every day, we are studying cooking, we are having a cooking seminar) without any metric of achievement. The process of defining achievements and delegating them is virtually impossible under today's personnel, procurement and spending laws. A clear example of the difference can be found by studying the division commanders' use of commander's emergency money in Iraq with the Coalition Provision Authority process. One division commander told me they could use the emergency money to order cars from a local Iraqi and that Iraqi could procure the cars in Turkey and drive them to the local town faster than they could process the paperwork in Baghdad to begin the process of purchasing through the CPA. The Congress and the President agreed to spend $18 billion rebuilding Iraq and ten months later $16 billion was still tied up in paperwork. Only the commander's emergency money was being spent in a timely, effective way. The same experience happened in Afghanistan where the United States Agency for International Development could not process the paperwork fast enough to meet the requirements of rebuilding Afghan civil society. One commander said that in rebuilding a society after a war "dollars are to rebuilding what ammunition is to a firefight." If the ammunition for the war were as constrained and slow as the dollars in reconstruction we would lose every war. Getting the system to move at the speed of wartime requirements and at the speed of information age processes requires a totally new model of delegating massively to project managers who are measured by their achievements not by the details of process reporting. This will be the most profound change in shifting from Bureaucratic Public Administration to

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Entrepreneurial Public Management and it will require substantial change in law, in culture, and in congressional and executive leadership expectation. To be sustained it will also have to be understood by reporters and analysts so the news media is focused on the same metrics as the leadership.

5. At every level leaders have to sift out the vital from the nice. In the information age there is always more to do than can possibly get done. One of the keys to effective leadership and to successful projects is to distinguish the vital from the useful. A useful way to think of this is that lions cannot afford to hunt chipmunks because even if they catch them they will starve to death. Lions are hyper-carnivores who have to hunt antelopes and zebras to survive. Every leader has to learn to distinguish every morning between antelopes and chipmunks by focusing on success as defined in a deep-mid-near time horizon then allowing that definition of success to define the antelope that really have to be achieved in order for the project to work.

6. An effective information age system has to focus on the outside world and "move to the sound of the guns." In the Bureaucratic Public Administration model which was developed at the cusp of the shift from an agrarian to an industrial society the key to focused achievement was to define your silo of responsibility and stick within that silo. As long as you were doing your job within that system of accountability you were succeeding even if the larger system were collapsing or failing. In the information age this internally oriented approach is doomed to fail. There are too many things happening too rapidly for people to be effective staying focused only on their own system. As Peter Drucker pointed out, in his classic, The Effective Executive, effective leaders realize that all the important impacts occur outside the organization and the organization exists for the purpose of achievements measured only by outside occurrences. Since the world is so much larger and so much faster moving than our particular activity we have to constantly be paying attention to the outside world. The

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military expression of this is the term OODA-loop. In the modern military the winning side Observes a fact, Orients itself to the meaning of that fact, Decides what to do, Acts and then loops back to Observe the new situation faster than its competitor. The winning team is always more AGILE and AGILITY is a vital characteristic for winning systems in the information age. This process is characterized by Dr. Andy von Eschenbach of the National Cancer Institute as the ability to discover-develop-deliver as rapidly as possible. However you describe these capabilities, they are clearly not the natural pattern of Bureaucratic Public Administration. They have to become the natural rhythm of Entrepreneurial Public Management if government is to meet the requirements of the information age.

7. When dealing with this scale of complexity and change people have to be educated into a model of doctrine so they understand what is expected and how to meet the expectations. We greatly underestimate how complex modern systems are and how much work it takes to understand what is expected, what habits and patterns work, how to relate to other members of the team. The more complex the information age becomes and the faster it evolves, the more vital it is to have very strong team building capabilities so people can come together and work on projects with a common language, common system, and common sense of accountability. Developing this kind of common understanding is what the military calls doctrine. Every system has to have a doctrinal base and the team members will be dramatically more effective if they have a shared understanding of the doctrine of their team.

8. The better educated into doctrine, the simpler the orders have to be. The less educated someone is into the common doctrine, the more complete and detailed the orders have to be. With a very mature team that has thoroughly mastered the doctrine and applied it in several situations, remarkably few instructions are required. In a brand new team the orders may have to be very detailed. The Entrepreneurial

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Public Management system has to have the flexibility to deal with the entire spectrum of knowledge and capability this implies.

9. The information age requires a constant focus on team building, team development, and team leadership. It is the wagon train and not the mountain man that best characterizes the information age. People have to work together to get complex projects completed in this modern era. It takes a while to build teams. There should be a lot more thought given to changing personnel laws so leaders can arrive in a new assignment with a core team of people they are used to working with. Admiral Ed Giambastiani of the joint Forces Command (which has responsibility for pioneering information age transformation in the military) has captured the distinction in modern sophisticated team requirements. He has a single chart that shows the growth in maturity towards truly interdependent teams. These teams are integrated, collaborative, inherently joint, capabilities based and network-centric. Entrepreneurial Public Management will require similar standards of sophisticated organization and teamwork for it to work at its optimum.

10. Information technology combined with the explosion in communications (including wireless communications) create the underlying capabilities that should be at the heart of transforming government systems from Bureaucratic Public Administration to Entrepreneurial Public Management. The power of computing and communications to capture, analyze and convey information with stunning accuracy and speed and at ever declining costs creates enormous opportunities for rethinking how to deliver goods and services. These new capabilities have been engines of change in the private sector. They are the heart of Wal-Mart's ability to turn "everyday low price is a function of everyday low cost" into a realistic implementation strategy. They are at the heart of the revolution in logistics supply chain management. They are this generation's most powerful reason for being sure

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we can expect more choices of higher quality at lower cost. We have only scratched the surface of the potential. The Library of Congress now has a digital library with millions of documents available 24 hours a day 7 days a week for free to anyone in the world who wants to access them through the internet. It is possible for every school in the country to have the largest library in the world by simply having one laptop accessing the internet. This is a totally different kind of system for learning. NASA is now connecting to schools to allow students to actually direct telescopes and search for stars from their classroom. This is an extraordinary extension of research opportunities to young scientists and young explorers. The potential to use the computer, the internet, and communications (again including wireless) has only begun to be tapped. The more rapidly government leaders study and learn the lessons of these new potentials the more rapidly we will invent a 21st century information age governing system which uses Entrepreneurial Public Management to produce more choices of higher quality at lower cost.

11. Creating a citizen centered government using the power of the computer and the internet. The agrarian-industrial model of government saw the citizen as a client of limited capabilities and the government employee as the center of knowledge, decision and power. It was a bureaucrat-centered model of governance (much as the agrarian-industrial model of health was a doctor-centered model and the agrarian-industrial school was a teacher-centered model). The information age makes it possible to develop citizen centered models of access and information. The Weather Channel and Weather.com are a good example of this new approach. The Weather Channel gathers and analyzes the data but it is available to you when you want it and in the form you need. You do not have to access all the weather in the world to discover the weather for your neighborhood tomorrow. You do not have to get anyone's permission to access the system 24 hours a day 7 days a week. Google is another system of customer centric organization that is a model for government. You access

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Google when you want to and you ask it the question that interests you. Google may give you an answer that has over a million possibilities but you only have to use the one or two options that satiate your interest. Similarly Amazon.com and E-Bay are models of systems geared to your interests on your terms when you want to access them. Compare these systems with the current school room, the courthouse which is open from 8 to 5, the appointment at the doctor's office on the doctor's terms, the college class only available when the professor deigns to show up. Government is still mired in the pre-computer, pre-communications age. A key component of Entrepreneurial Public Management is to ask every morning what can be done to use computers, the internet, CDs, DVDs, teleconferencing, and other modern innovations to recenter the government on the citizen.

12. A customer centered, citizen centered model of governance would start with the concept that as a general rule being online is better than being in line. It would both put traditional bureaucratic functions on the internet as is happening in many states (paying taxes, ordering license tags, etc.) but it would also begin to rethink major functions of government in terms of the new internet based system. The information age makes possible a lot more citizen self help as defined by the citizen's needs. If learning is individually centered and adapted to the needs of each person, and available when they need it and on the topics of skills they need, then how would that learning system operate? If prisoners out on parole were monitored by wireless information age technology to ensure they were going to work, taking their classes, staying out of off limits areas, etc., then how would the new model parole system operate? If migrant children could be connected to an online, videoconferencing and teleconferencing learning system so they had a continuity of learning experience how would that process operate? These are just some examples of how a citizen centered new model would be different from doing using information systems to improve the existing agrarian and industrial era delivery systems.

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13. One of the key side effects of information technology and ubiquitous communications is the development of much flatter hierarchies and much greater connectedness across the entire system. In private business, the military, and in customer relationships, there is a much flatter system of information flow. The power of knowledge is to some extent driving out the power of the hierarchy. A networked system seems to operate very differently than the pyramid of power which has been dominant since the rise of agriculture with a few at the top giving orders to the many at the bottom. Increasingly, who knows is defining who is in charge. Entrepreneurial Public Management will have a much more fluid system for shifting authority based on expertise and on identifying what knowledge needs to be applied so the right informed person can be brought in to make the decision as accurate and effective as possible. Bureaucratic Public Administration defined who was in the room by a system of defined authority without regard to knowledge. Entrepreneurial Public Management will define participation in the decisions by a hierarchy of knowledge and experience rather than a hierarchy of status and defined authority.

14. There will be a radical shift toward online learning and online information. In the information age people need to know so much in so many different areas and the knowledge itself keeps changing in a rapidly evolving world that it is impossible for the traditional classroom based continuing education system to keep up with modern reality. The combination of videoconferencing, online learning, mentoring and apprenticeships will presently create a totally different system of professional development and continuing education. Governments will shift from flying people to conferences and workshops towards having videoconferences. They will also shift from courses built around the teacher's convenience and occurring inconveniently in time and place toward on going learning opportunities that can be accessed 24/7 so people can learn when they need, what they need, and at their own

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convenience. This will increase the learning while decreasing the cost in both time and money.

15. Personnel mobility will be a major factor in the information age and will require profound changes in how we conceptualize a civil service. The information age creates career paths in which the most competent people move from challenging and interesting job to challenging and interesting job. A government civil service that required a lifetime commitment was both guaranteeing that it would not attract the most competent people and guaranteeing that it would not have the flexibility to bring in the specialists when they are needed. A new system of allowing people to move in and out of government service, to move from department to department as they are needed, to accumulate and take with them health savings accounts and pension plans, to build up seniority with each passing assignment, and to be able to rise without continuous service as long as their experience and knowledge has risen, these are the kind of changes which will be necessary for an Entrepreneurial Public Management system to attract the kind of talent it will need in the information age. It may also make sense for different governments to agree to count the experience in other governments in assigning status and pension eligibility so people could move between governments as well as within them.

16. Outsourcing is inevitably going to be a big part of the information age. Virtually every successful private sector company uses outsourcing extensively. The ability to create competitive pressures and shift to the best provider is inherent in the outsourcing model. Applying these principles to the public sector will both save the taxpayer money and improve substantially the quality and convenience of services provided to the citizens. It is also simply a fact that in many of the most complex developments of the information age the public sector bureaucracy simply cannot attract the expertise and build the capability to manage the new systems effectively. In

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these cases outsourcing is the only way to bring new developments into the government.

17. Privatization is a zone that needs to be readdressed in Washington and in the states. At one time the United States was a leader in privatization but now we have fallen far behind many foreign countries. There are a number of opportunities for privatization which would help balance the budget, increase the tax rolls of future contributors to government revenue, and increase the efficiency of the services delivered to the citizen. The Thatcher model of selling some of the stock to the beneficiaries of the services dramatically reduced resistance to privatization in Britain. A similar strategy of developing an economic incentive for those most likely to object to conclude that privatization was a good thing for them personally would lower the resistance and increase the opportunity to move naturally market oriented entities off the government payroll and into the market where it belongs.

18. For activities where privatization would be wrong there is a pattern of public-private partnerships which should be examined. The Atlanta Zoo was on the verge of being disaccredited because the city of Atlanta bureaucracy simply could not run it effectively. Mayor Andrew Young courageously concluded that the answer was to create a public-private partnership with the Friends of the Zoo. The city would continue to own the zoo and would provide some limited funding but the Friends of the Zoo would find additional resources and would provide entrepreneurial leadership. The Friends of the Zoo then recruited Dr. Terry Maples, a brilliant professor from Georgia Tech and a natural entrepreneur and salesman. With Terry's leadership and the Friends of the Zoo's enthusiastic backing, he rapidly turned ZooAtlanta into a world class research institution and a wonderful attraction both for the families of the Atlanta area and to visitors from around the world. ZooAtlanta went from being an almost disaccredited embarrassment to an extraordinary example of a public-private partnership. Other zoos around America have had

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similar experiences with new entrepreneurial leadership bringing new ideas, new excitement, and new resources to what had formerly been a government run institution. The government retains ownership of the zoo but the daily operations are under the control of the entrepreneurial association that raises the money and provides strategic guidance. The result is far more energy and creativity and a great deal more flexibility of implementation than could ever be achieved with a purely public bureaucracy. This is the model that should be applied to creating a truly national zoo in Washington where the National Zoo has suffered from the problems of a neglectful bureaucracy. This is also a model of the kind of activities which could be used in many other areas. When something can't be privatized or outsourced the next question should be whether or not there is a useful public private partnership that might be used to accomplish the same goals with fewer taxpayer resources and more creativity, energy and flexibility.

19. As a general principle, proposals that (i) dramatically improve applying logistics supply chain management, go paperless, adapt a quality-metrics system and/or (ii) outsource or privatize, should be viewed by 3rd party independent experts with no financial interests as well as by the agency to be changed. As a general rule government agencies or department leaders faced with improvements that will shrink their work force or shrink their budget will be reluctant to say yes. There are no incentives and rewards in government for downsizing and modernizing. The senior leader and the legislative branch need third party opinions as well as the in-house review and the vendor's proposal to ensure that the maximum improvements are being implemented.

20. Create pressure for modernizing government at all levels by requiring federal and state governments to benchmark best practices every year and agree to pay no more than 10% above the least expensive, most effective programs. This approach would create a continuous pressure to have government programs in each state constantly adapting

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toward better outcomes at lower cost. This approach also might entail providing a bonus to the state which has the best program in the country. It would also create an annual rhythm of benchmarking and data gathering which would revolutionize how we think about government. Benchmarking would also make very visible the cost of recalcitrant government unions and the cost of bureaucratic resistance to modernization.

These 20 principles are examples of the kind of thinking which will be required to move from a system of Bureaucratic Public Administration to a system of Entrepreneurial Public Management. It is one of the most important transformations of our lifetime and without it government will literally not be able to keep up with the speed and complexity of the information age.

THE LEGISLATIVE ROLE IN DEVELOPING ENTREPRENEURIAL PUBLIC MANAGEMENT

This subcommittee has taken the necessary first step in holding this hearing to begin to identify what changes need to be made so we can move to a government run according to the information age principles of Entrepreneurial Public Management from a government run according to the principles of Bureaucratic Public Administration. For the legislative branch the changes will include:

- Replacing the current civil service personnel laws with a new model of hiring and leading people including part time employees, temporary employees, the ability to shift to other jobs across the government, the ability to do training and educating on an individualized 24/7 internet based system;

- Radically simplifying the disclosure requirements which have become a major hindrance to successful people coming to work for the federal government;

- The Senate adopting rules to minimize individual Senators holding up Presidential appointments for months. The current

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process of clearing and confirming Presidential personnel should be a national scandal because it disrupts the functioning of the Executive Branch to a shocking degree. There should be some time limitation (say 90 days) for every appointment to reach an up or down vote on the Senate floor (this is separate from judicial nominations, which is a different kind of problem). The current Senate indulgence of individual Senators is a constant wound weakening the Executive Branch ability to manage;

- Creating a single system of security clearances so once people are cleared at a particular level (e.g., Secret, top secret, code word) they are cleared throughout the federal government and do not have to go through multiple clearances;

- Writing new management laws that enable entrepreneurial public leaders to set metrics for performance and reward and punish according to the achievement level of the employees;

- Within appropriate safeguards creating the opportunity for leaders to suspend and when necessary fire people who fail to do their jobs and fail to meet the standards and the metrics;

- Working with the major departments to reshape their education and training programs and their systems of assessment so they can begin retraining their existing work force into this new framework;

- Developing a new set of goals and definitions for the Inspectors General's job and refocusing those professionals into being pro-active partners in implementing the new Entrepreneurial Public Management approach including in their own offices;

- Designing a new salary structure that reflects the remarkable diversity of capabilities, hours worked, level of knowledge, independent contracting, part time engagement, etc., that is evident in the information age private sector;

- Passing a new system of procurement laws that encourage the supply chain thinking that is sweeping the private sector;

- Developing a new model of Congressional and state legislative staffing to ensure that enough experts and practitioners are advising legislators at the federal and state level so they can understand the complex new systems that are evolving and that are transforming capabilities in the private sector;

- Transforming the Congressional Management Institute so it is playing a leading role in developing the new legislative version of Entrepreneurial Public Management (some states have similar institutions);

- Transforming the General Accounting Office, the Congressional Research Service and the Congressional Budget Office into institutions that understand and are implementing the principles of Entrepreneurial Public Management;

- Developing a system for educating new members of Congress and new congressional staff members into these new principles;

- Creating an expectation that within two years every current congressional staff member will have taken a course in the new method of managing the government in an entrepreneurial way;

- Rethinking the kind of hearings that ought to be held, the focus of those hearings, and the kind of questions that government officials ought to be answering;

- Designing a much more flexible budget and appropriations process that provides for the kind of latitude entrepreneurial leaders need if they are to be effective;

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- Establishing for confirmation hearings the kind of questioning that elicits from potential office holders how they would work in an Entrepreneurial Public Management style and apply these questions with special intensity to people who come from a long background of experience in the traditional bureaucracy.

With this set of changes the legislative branches will have prepared for a cooperative leadership role in helping the executive branch transform itself from a system dedicated to Bureaucratic Public Administration into one working every day to invent and implement Entrepreneurial Public Management.

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The Washington Times
www.washingtontimes.com

Arabic words go free in jails

By Joel Mowbray
SPECIAL TO THE WASHINGTON TIMES
Published July 11, 2005

The federal Bureau of Prisons is holding 119 persons with "specific ties" to international Islamist terrorist groups, yet has no full-time Arabic translators or a system to monitor their communications, The Washington Times has learned.

A congressional aide said Bureau of Prisons officials maintain an informal list of 17 employees who are proficient in Arabic. The prison officials acknowledge, however, that none of the workers had been tested to determine Arabic fluency or undergone a special screening or background check, the aide said.

Capitol Hill is starting to notice.

"It's ludicrous to think that the Bureau of Prisons doesn't have a single full-time translator to monitor their communications," said Sen. Charles E. Grassley, Iowa Republican, in a statement given to The Washington Times before Thursday's multiple terror bombings in London.

Mr. Grassley called the current system "a recipe for disaster."

"There is no question that the number of Arabic translators should be beefed up as quickly as possible -- the very last thing that prisoners should be able to do from behind bars is write a letter to encourage, recruit or aid terrorists in their plans to attack here or around the world," Sen. Charles E. Schumer, New York Democrat, said in a separate statement to The Times.

After inquiries from members of Congress and The Times, prison officials said last week that they had hired one designated, full-time Arabic translator and plan to hire one more. But the employee had not begun work as of today and there was no indication of any fluency test or special background check.

Since the September 11 attacks, authorities have identified prisons as security threats because of recruitment efforts by al Qaeda and other terror groups. But convicted terrorists in federal penitentiaries, including those behind the 1993 World Trade Center bombing, retain communication privileges and have had direct contact with other terrorists.

The 119 inmates linked to terror groups include 40 thought to be members of al Qaeda and 23 who are "identified as linked to 9/11," according to a document prepared by the Bureau of Prisons. It is not clear from the document how many fall under both categories.

Although the agency limits the use of Arabic in some communications within prison walls, the lack of full-time translators makes it difficult for the bureau to learn efficiently and promptly the contents of phone calls or letters, which are monitored and can be in Arabic.

"There are several known instances in U.S. prisons of known or suspected terrorists communicating with terrorists overseas, or with their followers or other networks that share their ideologies and goals," counterterrorism consultant Daveed Gartenstein-Ross said. "Probably the best example is the 14 letters

that were exchanged between the convicted World Trade Center bombers and a Spanish terror cell."

A February 2003 letter from convicted bomber Mohammed Salameh to the Spanish terror cell read in part: "Oh God! Make us live with happiness, make us die as martyrs, may we be united on the Day of Judgment."

Bureau of Prisons spokesman Michael Truman said all inmate phone calls are recorded and all incoming and outgoing letters are scanned or copied. He was not able to say what portion of correspondence of the 119 prisoners tied to Islamic terrorists is monitored promptly.

Although the agency does not employ full-time Arabic translators, Mr. Truman said, it uses outside contractors as needed. He did not provide specifics.

The congressional aide said the prison officials acknowledge not having a formal procedure for using translation services of other agencies.

The Justice Department inspector general also warned that federal prisoners were being "radicalized" during religious services conducted in Arabic, and that the prison agency lacked Arabic-speaking employees to monitor the sessions.

To address concerns raised in that audit, the Bureau of Prisons six months ago issued regulations saying that all "sermons, original oratory, teachings and admonitions must be delivered in English."

Regulations allow each inmate five hours of phone calls per month and unlimited written correspondence, with some exceptions.

Three prisoners are barred from outside communication except with legal counsel. One is Omar Abdel Rahman, the blind sheik and spiritual mastermind behind the 1993 World Trade Center bombing. Another 16 inmates have limited outside contact.

The imprisoned World Trade Center bombers have had regular contact with other inmates in the general prison population, "where they radicalized inmates and told them that terrorism was part of Islam."

The whistleblower who brought the lack of Arabic translators to public attention fears reprisal from inmates at the federal prison in Lee County, Va., where he is scheduled to return to work this month after an eight-month medical leave.

The whistleblower, Joe Mansour, was interviewed on camera by NBC in March and discussed his role in translating Arabic communications of prisoners, including in terror-related cases.

His attorney, Mathew Tully, said Mr. Mansour, who is Muslim, is seen as a traitor by the Muslim population at the prison and is in personal danger.

Despite repeated requests, Mr. Mansour has been denied a transfer to any other prison facility. Mr. Tully says transfer requests are commonplace. "It is extremely uncommon not to grant a transfer," he said.

When questioned by aides to Mr. Grassley, an ardent advocate of whistleblowers, Bureau of Prisons officials complained that Mr. Mansour was not a true whistleblower, a person in attendance said.

The officials suggested that Mr. Mansour was attempting to bootstrap the whistleblowing onto a 2004 discrimination complaint in which he charged harassment from other employees because of his Arab ethnicity.

Mr. Mansour is not seeking monetary damages. He first wrote a letter to supervisors in April 2003 saying that Arabic phone calls and letters from suspected and convicted terrorists were going "unmonitored due to a lack of Arabic speaking staff."

Mr. PORTER. Thank you very much, Mr. Speaker.

Next we will have Honorable David M. Walker, Comptroller General of the United States.

Welcome, Mr. Walker.

STATEMENT OF DAVID M. WALKER

Mr. WALKER. Thank you, Mr. Chairman. Members, it is a pleasure to be back before this subcommittee, this time to talk about how to transform Government to meet the challenges of the 21st century.

As you know, I have spent 20 years in the private sector, now 13 in the public sector. And, as you know, GAO is trying to lead by example with regard to transforming what we do and how we do it for the benefit of the Congress and the American people.

What I would like to do is to show a few slides that I think demonstrate a compelling business case for why it is not only desirable, it is absolutely essential that we transform what the Government does, how the Government does business, who does the Government's business, and how we are going to pay for the Government's business in the 21st century, which means dramatic and fundamental reform not just in the executive branch, but also in the legislative branch, which is not well aligned for success in the 21st century.

This first builds on Speaker Gingrich's comment. This is based upon looking at CBO's assumptions for the next 10 years, using GAO's long-range budget simulations. It shows what our fiscal future looks like based upon two key assumptions: No. 1, discretionary spending in the first 10 years grows by the rate of inflation; No. 2, that all tax cuts expire; No. 3—in fact, there are four key assumptions that no new laws will be passed; and, No. 4, that the alternative minimum tax will not be fixed.

I would respectfully suggest none of those assumptions are realistic. As a result, this shows that we have a large and growing structural deficit due primarily to known demographic trends, rising health care costs, and lower Federal revenues on a relative basis than a percentage of the economy.

Next is an alternative scenario. There are only two changes, but differences between this one and the first one. No. 1, discretionary spending grows by the rate of the economy, which includes national defense, homeland security, judicial system, transportation, education, etc.; and, second, that all tax cuts are made permanent. This is an Argentina scenario. With all due respect, New Zealand did a great job in transforming itself, but only when it was on the verge of default.

It is absolutely essential that we take action now; that we begin to recognize reality that we are in an imprudent and unsustainable fiscal path; that working at the margins is not acceptable; and that as this document shows—which was published on February 16th, of which each Member has been given a copy—a vast majority of the Federal Government is based upon conditions that existed in the United States in the 1950's and the 1960's. Whether it is entitlement programs, whether it is spending policies or tax policies, they are based upon conditions that existed in the United States and in the world in the 1950's and 1960's, and we need to fun-

damentally review, re-engineer, re-prioritize the base of the Federal Government.

In doing that, we are going to have to ask some fundamental questions. Why do we have this program? Why do we have this policy? Why do we have this function or activity? Stated differently: Why did we create it? What were the conditions that existed? What were we trying to accomplish? How do we measure success on an outcome-based basis? Are we successful on that basis? What is the relative priority for today and tomorrow?

Believe it or not, a vast majority of Government has never been asked those fundamental questions. It is time that we ask.

Furthermore, we are also going to have to recognize that this is nothing less than a cultural transformation. The left-hand side shows the current state of many Government agencies. And, by the way, it is not just Government agencies, it is monopolies and entities in the private sector that do not face significant competition. That is the real key element.

My father worked for AT&T when it didn't have much competition. They had the same type of factors as many Government agencies do: hierarchical, stovepiped, process and output-oriented, reactive behavior, inwardly focused, avoiding technology, hoarding knowledge, avoiding risk, protecting turf, and directing employees as to what to do.

We have to transform how Government does business to make it a flatter organization, more matrixed and results-oriented, to be much more proactive, much more focused on the needs of customers and clients, to leverage technology, to empower employees, to share knowledge, manage risk, and, very, very importantly, form partnerships not only in Government, between governments, with the public-private, not-for-profit sector both domestically and internationally in order to make progress.

At GAO, we have focused on four key dimensions with great success, because we actually have fewer people today than we did 6 years ago and our results have over-doubled.

No. 1: Results. What are outcome-based results? Return on investment last year, 95 to 1, No. 1 in the world. No. 2: What do our clients and customers say about our work? Ninety-seven to 98 percent positive client feedback. No. 3: What do our employees say about our agency as a model employer? No. 1 in the Federal Government and higher than the private sector by about 6 percentage points. And, last, but not least: What do our partners that we work with say about how good a partner we are?

In summary, there is absolutely no question that we need to review, re-examine, re-engineer the base of the Federal Government. Working at the margins is not acceptable. Budget reform is part of that, but it is much more than that. And, candidly, this has to happen not just in the executive branch, but in the legislative branch, because if you look at the authorization, the appropriation, and the oversight process, many times when things are authorized, Congress does not provide clear direction of what it is attempting to achieve and what are the outcome-based results which that program should be measured against.

Second, in the absence of those outcome-based results, the assumption is if you throw more money at it, or if you provide addi-

tional tax preferences, it will be good and it will make a difference. That is simplistic and wrong. More money and more tax preferences do not necessarily achieve better results. We need to understand what results we are trying to achieve and to try to make sure that people are geared toward doing that. In appropriations, the money has to be allocated in a more targeted basis and based upon results that are actually achieved, rather than results that are promised.

And, last, I want to commend this committee and a few others for engaging in periodic oversight. We need more oversight. But that oversight is not just to find out what is not working; it is also to acknowledge what is working, because there are many things that are going well, and we should share those successes, celebrate those successes, replicate them across Government, while figuring out where we need to make changes and holding people accountable for progress.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Walker follows:]

United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on the Federal Workforce and Agency Organization, Committee on Government Reform, House of Representatives

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21ST CENTURY CHALLENGES

Transforming Government to Meet Current and Emerging Challenges

Statement of David M. Walker
Comptroller General of the United States

GAO-05-830T

July 13, 2005

GAO
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Highlights

Highlights of GAO-05-830T, a testimony before the Subcommittee on the Federal Workforce and Agency Organization, Committee on Government Reform, House of Representatives

21ST CENTURY CHALLENGES

Transforming Government to Meet Current and Emerging Challenges

Why GAO Did This Study

The daunting challenges that face the nation in the 21st century establish the need for the transformation of government and demand fundamental changes in how federal agencies should meet these challenges by becoming flatter, more results-oriented, externally focused, partnership-oriented, and employee-enabling organizations.

This testimony addresses how the long-term fiscal imbalance facing the United States, along with other significant trends and challenges, establish the case for change and the need to reexamine the base of the federal government; how federal agencies can transform into high-performing organizations; and how multiple approaches and selected initiatives can support the reexamination and transformation of the government and federal agencies to meet these 21st century challenges.

www.gao.gov/cgi-bin/getrpt?GAO-05-830T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact J. Christopher Mihm at (202) 512-6806 or mihmj@gao.gov.

What GAO Found

Long-term fiscal challenges and other significant trends and challenges facing the United States provide the impetus for reexamining the base of the federal government. Our nation is on an imprudent and unsustainable fiscal path driven by known demographic trends and rising health care costs, and relatively low revenues as a percentage of the economy. Unless we take effective and timely action, we will face large and growing structural deficit shortfalls, eroding our ability to address the current and emerging needs competing for a share of a shrinking budget pie. At the same time, policymakers will need to confront a host of emerging forces and trends, such as changing security threats, increasing global interconnectedness, and a changing economy. To effectively address these challenges and trends, government cannot accept all of its existing programs, policies, functions, and activities as "givens." Reexamining the base of all major existing federal spending and tax programs, policies, functions, and activities offers compelling opportunities to redress our current and projected fiscal imbalances while better positioning government to meet the new challenges and opportunities of this new century.

In response, agencies need to change their cultures and create the capacity to become high-performing organizations, by implementing a more results-oriented and performance-based approach to how they do business. To successfully transform, agencies must fundamentally reexamine their business processes, outmoded organizational structures, management approaches, and, in some cases, missions. GAO has hosted several forums to explore the change management practices that federal agencies can adopt to create high-performing organizations. For example, participants at a GAO forum broadly agreed on the key characteristics and capabilities of high-performing organizations, which can be grouped into four themes:

- a clear, well-articulated, and compelling mission;
- focus on needs of clients and customers;
- strategic management of people; and
- strategic use of partnerships.

A successful reexamination of the base of the federal government will entail multiple approaches over a period of years. The reauthorization, appropriations, oversight, and budget processes should be used to review existing programs and policies. However, no single approach or institutional reform can address the myriad of questions and program areas that need to be revisited. GAO has recommended certain other initiatives to assist in the needed transformations. These include (1) development of a governmentwide strategic plan and key national indicators to assess the government's performance, position, and progress; (2) implementing a framework for federal human capital reform; and (3) proposing specific transformational leadership models, such as creating a Chief Operating Officer/Chief Management Official with a term appointment at select agencies.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here to discuss GAO's work on the transformation of government in the 21st century. The daunting challenges that face us in this new century establish the need for this transformation and demand fundamental changes in what the government should do, how the government should do business, and how we should finance government. Federal agencies will need to become flatter, more results-oriented, externally focused, partnership-oriented, and employee-enabling organizations.

In summary, I will discuss three areas today:

- how the long-term fiscal imbalance facing the United States, along with other significant trends, establish the case for change and the need to reexamine the base of the federal government;
- how federal agencies can transform into high-performing organizations, including GAO's own efforts to transform; and
- how multiple approaches and selected initiatives can support the reexamination and transformation of the government and federal agencies to meet these 21st century challenges.

This testimony draws upon our prior work and GAO's insights on 21st century challenges and the reexamination of the base of the federal government, organizational transformation and high-performing organizations, and federal programs and operations that GAO has designated to be high risk. We conducted our work in accordance with generally accepted government auditing standards.

The Case for Change: Long-Term Fiscal Challenges and Other Significant Trends Establish the Need for Reexamining the Base

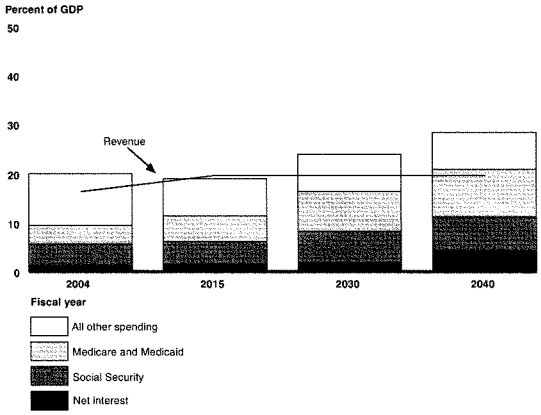
Let me begin by laying out the case for change. As Congress is well aware, the nation faces a number of significant forces that are already working to reshape American society, our place in the world, and the role of the federal government. Our capacity to address these and other emerging needs will be predicated on when and how we deal with our large and growing long-range fiscal imbalance. As I have said before, our nation is on an imprudent and unsustainable fiscal path driven largely by known demographic trends and rising health care costs. These trends are compounded by the presence of near-term deficits arising from new discretionary and mandatory spending as well as lower revenues as a share

of the economy. Unless we take effective and timely action, we will face large and growing structural deficit shortfalls. Not only would continuing deficits eat away at the capacity of everything the government does, but they will erode our ability to address the wide range of emerging needs and demands competing for a share of a shrinking budget pie.

Over the next few decades, as the baby boom generation retires and health care costs continue to escalate, federal spending on Social Security, Medicare, and Medicaid is expected to grow dramatically. Other federal fiscal commitments, such as environmental cleanup and veterans' benefits, will also bind the nation's fiscal future. GAO's long-term budget simulations illustrate the magnitude of this fiscal challenge. Figures 1 and 2 show these simulations under two different sets of assumptions. Figure 1 uses the Congressional Budget Office (CBO) January 2005 baseline through 2015. As required by law, that baseline assumes no changes in current law, that discretionary spending grows with inflation through 2015, and that all tax cuts currently scheduled to expire are permitted to expire. In figure 2, two assumptions about that first 10 years are changed: (1) discretionary spending grows with the economy rather than with inflation and (2) all tax cuts currently scheduled to expire are made permanent. In both simulations discretionary spending is assumed to grow with the economy after 2015 and revenue is held constant as a share of Gross Domestic Product (GDP) at the 2015 level. Also, in both simulations long-term Social Security and Medicare spending are based on the 2005 trustee's intermediate projections, and we assume that benefits continue to be paid in full after the trust funds are exhausted. Long-term Medicaid spending is based on CBO's December 2003 long-term projections under their midrange assumptions.[1]

[1] For additional discussion of our budget simulations, see GAO, *Our Nation's Fiscal Outlook: The Federal Government's Long-Term Budget Imbalance*, at http://www.gao.gov/special.pubs/longterm/longterm.html.

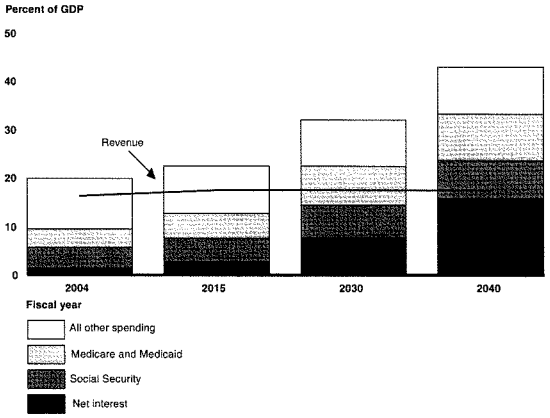
Figure 1: Composition of Spending as a Share of GDP, Under Baseline Extended



Source: GAO's March 2005 analysis.

Notes: In addition to the expiration of tax cuts, revenue as a share of GDP increases through 2015 due to (1) real bracket creep, (2) more taxpayers becoming subject to the alternative minimum tax (AMT), and (3) increased revenue from tax-deferred retirement accounts. After 2015, revenue as a share of GDP is held constant.

Figure 2: Composition of Spending as a Share of GDP Assuming Discretionary Spending Grows with GDP After 2005 and All Expiring Tax Provisions Are Extended



Source: GAO's March 2005 analysis.

Notes: Although expiring tax provisions are extended, revenue as a share of GDP increases through 2015 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2015, revenue as a share of GDP is held constant.

As both these simulations illustrate, absent policy changes on the spending and/or revenue side of the budget, the growth in spending on federal retirement and health entitlements will encumber an escalating share of the government's resources. Indeed, when we assume that recent tax reductions are made permanent and discretionary spending keeps pace with the economy, our long-term simulations suggest that by 2040 federal revenues may be adequate to pay little more than interest on the federal debt. Neither slowing the growth in discretionary spending nor allowing the tax provisions to expire—nor both together—would eliminate the imbalance. Although revenues will ultimately be part of the debate about our fiscal future, making no changes to Social Security, Medicare, Medicaid, and other drivers of the long-term fiscal gap would require at least a doubling of taxes in the future—and that seems both inappropriate

and implausible. Accordingly, substantive reform of Social Security, Medicare, and other major mandatory programs remains critical to recapturing our future fiscal flexibility.

The government can help ease our nation's future fiscal burdens through actions on the spending and/or revenue side that reduce debt held by the public, increase saving for the future, and enhance the pool of economic resources available for private investment and long-term growth. Economic growth is essential, but our long-term fiscal gap is simply too great to grow our way out of the problem. Closing the current long-term fiscal gap would require sustained economic growth far beyond that experienced in U.S. economic history since World War II. Tough choices are inevitable, and the sooner we act the better.

In addition to the nation's large and growing long-term fiscal imbalance, policymakers must confront a host of emerging forces and trends shaping the United States, which GAO highlights in its strategic plan for serving Congress.[2] We face a world in which national boundaries are becoming less relevant in addressing a range of economic, security, social, public health, energy, and environmental issues. The shift to a knowledge-based economy and additional productivity gains are having significant impacts on the job market. Scientific research and technological developments are improving and even extending life, but they are also raising profound ethical questions for society. Accompanying these changes are new expectations about the quality of life for Americans and how we should measure the nation's position and progress. Governance structures are evolving in order to contend with these new forces and an accelerating pace of change. These broad themes—changing security threats, increasing global interconnectedness, the changing economy, an aging and more diverse population, scientific and technological change, concern for quality of life, and evolving governance structures—present both challenges and opportunities to our economy and our society.

If government is to address these challenges and trends effectively, it cannot accept all of its existing programs, policies, and activities as "givens." Many of the federal government's programs, policies, functions, and activities were designed decades ago to address earlier challenges. Outmoded commitments and operations constitute an encumbrance on the

[2] GAO, *GAO's Strategic Plan for Serving the Congress and the Nation (2004-2009)* (Washington, D.C.: March 2004).

future that can erode the capacity of the nation to better align its government with the needs and demands of a changing world and society. Accordingly, reexamining the base of all major existing federal spending and tax programs, policies, functions, and activities by reviewing their results and testing their continued relevance and relative priority for our changing society is an important step in the process of assuring fiscal responsibility and facilitating national renewal. Reexamining the base offers compelling opportunities to redress our current and projected fiscal imbalance while better positioning government to meet the new challenges and opportunities of this new century.

In our recent publication *21st Century Challenges: Reexamining the Base of the Federal Government*, we focused on these challenges and trends, along with GAO's institutional knowledge and issued work, to identify reexamination areas and suggest some questions to use for this reexamination.[3] The specific questions were informed by a set of generic evaluation criteria which are useful for reviewing any government program, policy, function, or activity; these are displayed in table 1.

Table 1: Generic Reexamination Criteria and Sample Questions

Relevance of purpose and the federal role	Why did the federal government initiate this program and what was the government trying to accomplish?
	Have there been significant changes in the country or the world that relate to the reason for initiating it?
Measuring success	Are there outcome-based measures? If not, why?
	If there are outcome-based measures, how successful is it based on these measures?
Targeting benefits	Is it well targeted to those with the greatest needs and the least capacity to meet those needs?
Affordability and cost effectiveness	Is it using the most cost-effective or net beneficial approaches when compared to other tools and program designs?
Best practices	Is the responsible entity employing prevailing best practices to discharge its responsibilities and achieve its mission?

Source: GAO.

[3] GAO, *21st Century Challenges: Reexamining the Base of the Federal Government*, GAO-05-325SP (Washington, D.C.: February 2005).

In the report, we also describe 12 broad reexamination areas, based in large measure on functional areas in the federal budget, as shown in figure 3.

Figure 3: Twelve Reexamination Areas

Mission Areas	
Defense	Natural Resources, Energy and Environment
Education and Employment	Retirement and Disability
Financial Regulation and Housing	Science and Technology
Health Care	Transportation
Homeland Security	
International Affairs	
Crosscutting Areas	
Governance	Tax System

Source: GAO.

Since health policy is both a driver of our long-term trends and a new area of oversight for this subcommittee, I will use it to illustrate the reexamination challenges and questions. Between 1992 and 2002, overall health care spending rose from $827 billion to about $1.6 trillion; it is projected to nearly double to $3.1 trillion in the following decade. This price tag results, in part, from advances in expensive medical technology, including new drug therapies, and the increased use of high-cost services and procedures. Many policymakers, industry experts, and medical practitioners contend that the U.S. health care system—in both the public and private sectors—is in crisis.

Despite the significant share of the economy consumed by health care, U.S. health outcomes continue to lag behind many other industrialized nations. The United States now spends over 15 percent of its gross domestic product on health care—far more than other major industrialized nations. Yet relative to these nations, the United States performs below par in such measures as rates of infant mortality, life expectancy, and premature and preventable deaths. Moreover, evidence suggests that the American people are not getting the best value for their health care dollars.

Given this picture, there are a number of important questions that need to be addressed. Among them are the following:

- How can we perform a systematic reexamination of our current health care system? For example, could public and private entities work

jointly to establish formal reexamination processes that would (1) define and update as needed a minimum core of essential health care services; (2) ensure that all Americans have access to the defined minimum core services; (3) allocate responsibility for financing these services among such entities as government, employers, and individuals; and (4) provide the opportunity for individuals to obtain additional services at their discretion and cost?

- How can we make our current Medicare and Medicaid programs financially sustainable? For example, should the eligibility requirements (e.g., age, income requirements) for these programs be modified?
- How can health care tax incentives be designed to encourage employers and employees to better control health care cost? For example, should tax preferences for health care be designed to cap the health insurance premium amount that can be excluded from an individual's taxable income?
- How can technology be leveraged to reduce costs and enhance quality while protecting patient privacy?

Health care is not, of course, the only area in which fundamental change is necessary. All of our federal agencies must become high-performing organizations. I will turn now to a discussion of the elements that can help to make such a transformation a reality.

Transforming Federal Agencies into High-Performing Organizations: Key Elements of Transformations

Government is being transformed by the challenges and trends I discussed previously. As a result, federal agencies must change their cultures and create the institutional capacity to become high-performing organizations that can adapt to the changing demands of the 21st century, by implementing a more results-oriented and performance-based approach to how they do business.

Unfortunately, in many cases, the government is still trying to do business in ways that are based on conditions, priorities, and approaches that existed decades ago and are not well suited to addressing 21st century challenges. For example, some agencies do not yet have sufficient abilities, leadership, and management capabilities to transform their cultures and operations. As you know, on a biennial basis, GAO updates its list of high-risk areas for the federal government, and most recently did so in January

of this year.[4] Increasingly, GAO also is identifying high-risk areas to focus on the need for broad-based transformations to address major economy, efficiency, or effectiveness challenges. To illustrate, several of these high-risk areas include the U.S. Postal Service transformation efforts and long-term outlook, implementing and transforming the Department of Homeland Security (DHS), and the Department of Defense's (DOD) approach to business transformation, as shown in table 2. GAO will continue to use the high-risk designation to highlight additional areas facing major transformational challenges.

[4] GAO, *High-Risk Series: An Update*, GAO-05-207 (Washington, D.C.: January 2005).

Table 2: GAO's 2005 High-Risk List

2005 High-Risk Areas
Addressing Challenges In Broad-based Transformations
• Strategic Human Capital Management[a]
• U.S. Postal Service Transformation Efforts and Long-Term Outlook[a]
• Managing Federal Real Property[a]
• Protecting the Federal Government's Information Systems and the Nation's Critical Infrastructures
• Implementing and Transforming the Department of Homeland Security
• Establishing Appropriate And Effective Information-Sharing Mechanisms to Improve Homeland Security
• DOD Approach to Business Transformation[a]
• DOD Business Systems Modernization
• DOD Personnel Security Clearance Program
• DOD Support Infrastructure Management
• DOD Financial Management
• DOD Supply Chain Management (formerly Inventory Management)
• DOD Weapon Systems Acquisition
Managing Federal Contracting More Effectively
• DOD Contract Management
• DOE Contract Management
• NASA Contract Management
• Management of Interagency Contracting
Assessing the Efficiency and Effectiveness of Tax Law Administration
• Enforcement of Tax Laws[a, b]
• IRS Business Systems Modernization[c]
Modernizing and Safeguarding Insurance and Benefit Programs
• Modernizing Federal Disability Programs[a]
• Pension Benefit Guaranty Corporation Single-Employer Insurance Program[a]
• Medicare Program[a]
• Medicaid Program[a]
• HUD Single-Family Mortgage Insurance and Rental Housing Assistance Programs
Other
• FAA Air Traffic Control Modernization

Source: GAO.

[a]Legislation is likely to be necessary, as a supplement to actions by the executive branch, in order to effectively address this high-risk area.

[b]Two high-risk areas—Collection of Unpaid Taxes and Earned Income Credit Noncompliance—have been consolidated to make this area.

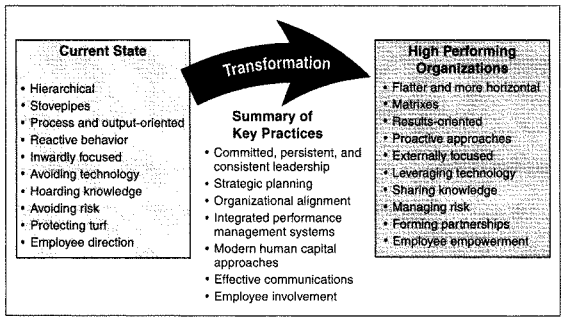
[c]The IRS Financial Management high-risk area has been incorporated into this high-risk area.

To successfully navigate transformation across the government, these and other agencies must fundamentally reexamine not only their business processes, but also their outdated organizational structures, management approaches, and in some cases, missions. GAO has hosted several forums bringing together senior leaders from the federal sector, executives from the private and not-for-profit sectors, and members of academia, to explore the specific change management practices that federal agencies can adopt to create high-performing organizations. In September 2002, in anticipation of the creation of DHS, we convened a forum of these leaders to identify useful practices and lessons learned from major private and public sector organizational mergers, acquisitions, and transformations that federal agencies could implement to successfully transform their cultures.[5] These key practices are summarized in the broad categories displayed in figure 4. In a follow-on report, we identified the specific implementation steps for the key mergers and transformation practices raised at the forum.[6]

[5] GAO, *Highlights of a GAO Forum: Mergers and Transformation: Lessons Learned for a Department of Homeland Security and Other Federal Agencies*, GAO-03-293SP (Washington, D.C.: November 2002).

[6] GAO, *Results-Oriented Cultures: Implementation Steps to Assist Mergers and Organizational Transformations*, GAO-03-669 (Washington, D.C.: July 2003).

Figure 4: Cultural Changes and Key Practices Necessary for Successful Transformation



Source: GAO analysis.

In November 2003, GAO held a related forum on the metrics, means, and mechanisms to achieve high performance in the 21st century public management environment.[7] There was broad agreement among the forum participants on the key characteristics and capabilities of high-performing organizations, which can be grouped into the following four themes:

- *A clear, well-articulated, and compelling mission.* High-performing organizations have a clear, well-articulated, and compelling mission; the strategic goals to achieve it; and a performance management system that aligns with these goals to show employees how their performance can contribute to overall organizational results.

- *Focus on needs of clients and customers.* Serving the needs of clients and customers involves identifying their needs, striving to meet them, measuring performance, and publicly reporting on progress to help assure appropriate transparency and accountability.

[7]GAO, *High-Performing Organizations: Metrics, Means, and Mechanisms for Achieving High Performance in the 21st Century Public Management Environment*, GAO-04-343SP (Washington, D.C.: Feb. 13, 2004).

- *Strategic management of people.* Most high-performing organizations have strong, charismatic, visionary, and sustained leadership; the capability to identify what skills and competencies the employees and the organization need; and other key characteristics including effective recruiting, comprehensive training and development, retention of high-performing employees, and a streamlined hiring process.

- *Strategic use of partnerships.* Since the federal government is increasingly reliant on partners to achieve its outcomes, becoming a high-performing organization requires that federal agencies effectively manage relationships with other organizations outside of their direct control.

GAO has used these tools, and others, to fundamentally change our organization. Shortly after I was appointed Comptroller General, I determined that GAO should undertake a major transformation effort to better enable it to "lead by example" and better support Congress in the 21st century. To provide the foundation for GAO's transformation, we first developed a set of core values and a strategic plan for the 21st century. We used our strategic plan as a framework to align our organization, allocate its resources, and determine appropriate priorities and performance measures. For example, we streamlined and realigned the agency to eliminate a management layer, consolidated 35 issue areas into 13 teams, and reduced our field offices from 16 to 11. We also reallocated our resources to focus more on matrixing internally and partnering externally. In the human capital area and in all other management functions, we seek to lead by example in modernizing our policies and procedures. For example, in the human capital area, we have adopted a range of strategic workforce policies and practices, such as recruiting and succession planning strategies, as a result of a comprehensive workforce planning effort. We have also updated our performance management and compensation systems and our training and development programs to maximize staff effectiveness and fully develop the potential of our staff.

Given these challenges and trends, and the need for federal agencies to transform, where do we go from here?

The Way Forward: Multiple Approaches to Reexamine the Base of Government and Selected Initiatives to Support Government Transformation

In our system, the reexamination of programs and the transformation of agencies are not easy processes—there is little "low hanging fruit," or few easy, quick fixes. Although resistance can be expected, there are cases where program areas and agencies have been reformed in the past that we can draw lessons from in going forward. A successful process to reexamine the base of the federal government will in all likelihood rely on multiple approaches over a period of years. The reauthorization, appropriations, oversight, and budget processes have all been used, on some occasions in the past, to review existing programs and policies. Adding other specific approaches and processes—such as temporary commissions to develop policy alternatives or executive reorganizations—has been proposed. Each approach needs to be considered separately for each program area and organizational problem to determine which set of approaches is best tailored for each.

Performance and analytic tools can play a vital role in facilitating reexamination. In this regard, the performance metrics and plans ushered in by the Government Performance and Results Act of 1993 (GPRA) have led to a growing supply of increasingly sophisticated measures and data on the results achieved by various federal programs. Agencies and the Office of Management and Budget (OMB) have been working over the years to strengthen the links between this information and the budget. Under the Administration's Program Assessment Rating Tool (PART), for example, OMB is rating the effectiveness of each program in the budget over a 5-year period. Since the fiscal year 2004 budget cycle, OMB has applied PART to 607 programs (about 60 percent of the federal budget).

In conjunction with the multiple reexamination approaches that can be used, GAO has, in the past, recommended or asked Congress to consider certain initiatives to assist in government and agency transformations. These include (1) requiring a governmentwide strategic plan and developing a set of key national indicators to help inform the plan; (2) implementing a governmentwide framework for federal human capital reform; and (3) proposing specific leadership models to address transformation challenges, such as creating a Chief Operating Officer (COO)/Chief Management Official (CMO) at select agencies.

Governmentwide strategic plan and key national indicators

We have previously recommended that Congress consider amending GPRA to require the President to develop a governmentwide strategic plan to provide a framework to identify long-term goals and strategies to address issues that cut across federal agencies.[8] A strategic plan for the federal government, supported by key national outcome-based indicators to assess the government's performance, position, and progress, could be a valuable tool for governmentwide reexamination of existing programs, as well as proposals for new programs.[9] Developing a strategic plan can help clarify priorities and unify stakeholders in the pursuit of shared goals. Therefore, developing a strategic plan for the federal government would be an important first step in articulating the role, goals, and objectives of the federal government. If fully developed, a governmentwide strategic plan can potentially provide a cohesive perspective on the long-term goals of the federal government and provide a much-needed basis for fully integrating, rather than merely coordinating, a wide array of federal activities.

Similar to GPRA's requirement that agencies consult with Congress as they develop their strategic plans, OMB should also be required to consult with Congress as it develops the governmentwide strategic plan. If fully implemented, the governmentwide strategic plan could also provide a framework for congressional oversight and other activities. To that end, we have also suggested that Congress consider the need to develop a more systematic vehicle for communicating its top performance concerns and priorities; develop a more structured oversight agenda to prompt a more coordinated congressional perspective on crosscutting performance issues; and use this agenda to inform its authorization, appropriations, and oversight processes. One possible approach would involve developing a congressional performance resolution identifying the key oversight and performance goals that Congress wishes to set for its own committees and for the government as a whole. Such a resolution could be developed by modifying the current congressional budget resolution, which is already organized by budget function. Initially, this may involve collecting the "views and estimates" of authorization and appropriations committees on priority performance issues for programs under their jurisdiction and working with crosscutting committees.

[8] GAO, *Results-Oriented Government: GPRA Has Established a Solid Foundation for Achieving Greater Results*, GAO-04-38 (Washington, D.C.: Mar. 10, 2004).

[9] GAO, *Informing Our Nation: Improving How to Understand and Assess the USA's Position and Progress*, GAO-05-1 (Washington, D.C.: Nov. 10, 2004).

The development of a set of key national indicators that would provide information on a core set of information regarding the economic, environmental, social, and cultural condition of the nation over time, including safety and security, could be used as a basis to inform the development of a governmentwide strategic plan. The indicators could also link to and provide information to support outcome-oriented goals and objectives in agency-level strategic and annual performance plans. Currently, the National Academies are facilitating the development of a framework for a key national indicator system. As currently planned, this framework will include a description of the indicators in many areas, without the data, by the end of 2005.

Federal human capital reform

As I have repeatedly stated, people are an organization's most important asset, and strategic human capital management should be the centerpiece of any effort to transform the cultures of government agencies. However, the existing federal personnel system is outmoded, and in some ways serves as a barrier to government transformation. GAO first placed strategic human capital management on the high-risk list in 2001 to focus attention on needed reforms. More progress in addressing human capital challenges was made in the last several years than in the previous 20, and additional significant changes in how the federal workforce is managed are underway.

To help advance the discussion concerning how governmentwide human capital reform should proceed, GAO and the National Commission on the Public Service Implementation Initiative hosted a forum on whether there should be a governmentwide framework for human capital reform and, if so, what this framework should include.[10] There was widespread recognition among the forum participants that a "one size fits all" approach to human capital management is not appropriate for the challenges and demands government faces. However, a reasonable degree of consistency across the government is still desirable in a governmentwide framework that would include principles, criteria, and processes. We believe that future human capital reform should be put in operation only when an

[10] GAO and the National Commission on the Public Service Implementation Initiative, *Highlights of a Forum: Human Capital: Principles, Criteria, and Processes for Governmentwide Federal Human Capital Reform*, GAO-05-69SP (Washington, D.C.: Dec. 1, 2004).

agency has the institutional infrastructure in place to use the new authorities effectively. This infrastructure includes, at a minimum,

- a strategic human capital planning process linked to the agency's strategic plan;
- capabilities to design and implement a new human capital system effectively; and
- a modern, effective, credible, and validated performance management system that includes adequate safeguards to ensure the fair, effective, and nondiscriminatory implementation of the system.

Importantly, it is possible to enact broad-based human capital reforms that would enable agencies to move to a more market-oriented and performance-based system. However, any such effort should require that the agency not implement key reforms until after it meets certain procedural management assessment and independent certification requirements relating to the above-referenced criteria.

Transformational Leadership

We have reported that the personal involvement of top leadership in organizational transformation provides an identifiable source for employees to rally around during the tumultuous times created by dramatic reorganizations and transformations. Leadership must set the direction, pace, and tone for the transformation and should provide sustained and focused attention over the long term. This is because the experience of successful transformations and change management initiatives in large public and private organizations suggests that it can take at least 7 years until such initiatives are fully implemented and cultures are transformed in a substantial manner.

As DHS, DOD, and other agencies embark on large-scale organizational change initiatives to address 21st century challenges, there is a compelling need for leadership to provide the continuing focused attention essential to completing these multiyear transformations. We have reported that creation of a COO or CMO with term appointments at selected agencies could help to (1) elevate attention on management issues and transformational change, (2) integrate various key management and transformation efforts, and (3) institutionalize accountability for

addressing these issues and leading this change.[11] As I have testified on several occasions, one way to ensure sustained leadership over DOD's business transformation efforts would be to create a full-time executive-level II position for a CMO, who would serve as the Deputy Secretary of Defense for Management, or Principal Undersecretary. I have also stated that establishing a term that spans administrations underscores the importance of a professional, nonpartisan approach to this business management-oriented position. In April 2005, Senators Ensign, Akaka, and Voinovich introduced legislation (S. 780) to create a CMO/Deputy Secretary of Defense for Management position for DOD. The Deputy Secretary of Defense for Management would report to the Secretary of Defense and serve for a term of 7 years with an annual performance agreement.

Conclusions

In establishing more results-oriented and performance-based cultures, government organizations and their leaders need to carefully select the best solution for their organizations in terms of structure, systems, and processes. Supporting new and more adaptable ways of doing business will be vital to successful transformation. Though progress is being made on many fronts, much remains to be done.

Regardless of the specific combination of reexamination approaches or selected initiatives adopted to transform the government and agencies, the ultimate success of this process will depend on several important overarching conditions:

- Sustained leadership to champion changes and reforms through the many stages of the policy development and subsequent implementation process.
- Broad-based input by a wide range of stakeholders.

[11] GAO, *DOD's High-Risk Areas: Successful Business Transformation Requires Sound Strategic Planning and Sustained Leadership*, GAO-05-520T (Washington, D.C.: Apr. 13, 2005); GAO, *Department of Homeland Security: A Comprehensive and Sustained Approach Needed to Achieve Management Integration*, GAO-05-139 (Washington, D.C.: Mar. 16, 2005); GAO, *The Chief Operating Officer Concept and Its Potential Use as a Strategy to Improve Management at the Department of Homeland Security*, GAO-04-876R (Washington, D.C.: June 28, 2004); and GAO, *Highlights of a GAO Roundtable: The Chief Operating Officer Concept: A Potential Strategy to Address Federal Governance Challenges*, GAO-03-192SP (Washington, D.C.: Oct. 4, 2002).

- Reliable data and credible analysis from a broad range of sources that provide a compelling fact-based rationale for changing the base of programs and policies for specific areas.

- Clear and transparent processes for engaging the broader public in the debate over the recommended changes.

Policy and organizational change is not an easy process, but one that we have no choice but to embrace to reclaim our fiscal future and make government relevant for this new century. We at GAO stand ready to help Congress address these challenges.

Mr. Chairman, this concludes my prepared statement. I would be pleased to respond to any questions that you or other Members of the Subcommittee may have at this time.

For future information on this testimony, please contact J. Christopher Mihm, Managing Director, Strategic Issues, at (202) 512-6806 or mihmj@gao.gov.

July 2003

GAO
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Highlights

Highlights of GAO-03-669, a report to congressional requesters

RESULTS-ORIENTED CULTURES

Implementation Steps to Assist Mergers and Organizational Transformations

Why GAO Did This Study

The Comptroller General convened a forum in September 2002 to identify useful practices and lessons learned from major private and public sector mergers, acquisitions, and organizational transformations. This was done to help federal agencies implement successful transformations of their cultures, as well as the new Department of Homeland Security merge its various originating components into a unified department. There was general agreement on a number of key practices found at the center of successful mergers, acquisitions, and transformations. In this report, we identify the specific implementation steps for the key practices raised at the forum with illustrative private and public sector examples.

To identify these implementation steps and examples, we relied primarily on interviews with selected forum participants and other experts about their experiences implementing mergers, acquisitions, and transformations and also conducted a literature review.

www.gao.gov/cgi-bin/getrpt?GAO-03-669.

To view the full product, including the scope and methodology, click on the link above. For more information, contact J. Christopher Mihm, (202) 512-6806 or mihmj@gao.gov.

What GAO Found

At the center of any serious change management initiative are the people. Thus, the key to a successful merger and transformation is to recognize the "people" element and implement strategies to help individuals maximize their full potential in the new organization, while simultaneously managing the risk of reduced productivity and effectiveness that often occurs as a result of the changes. Building on the lessons learned from the experiences of large private and public sector organizations, these key practices and implementation steps can help agencies transform their cultures so that they can be more results oriented, customer focused, and collaborative in nature.

Key Practices and Implementation Steps for Mergers and Organizational Transformations

Practice	Implementation Step
Ensure top leadership drives the transformation.	• Define and articulate a succinct and compelling reason for change. • Balance continued delivery of services with merger and transformation activities.
Establish a coherent mission and integrated strategic goals to guide the transformation.	• Adopt leading practices for results-oriented strategic planning and reporting.
Focus on a key set of principles and priorities at the outset of the transformation.	• Embed core values in every aspect of the organization to reinforce the new culture.
Set implementation goals and a timeline to build momentum and show progress from day one.	• Make public implementation goals and timeline. • Seek and monitor employee attitudes and take appropriate follow-up actions. • Identify cultural features of merging organizations to increase understanding of former work environments. • Attract and retain key talent. • Establish an organizationwide knowledge and skills inventory to exchange knowledge among merging organizations.
Dedicate an implementation team to manage the transformation process.	• Establish networks to support implementation team. • Select high-performing team members.
Use the performance management system to define responsibility and assure accountability for change.	• Adopt leading practices to implement effective performance management systems with adequate safeguards.
Establish a communication strategy to create shared expectations and report related progress.	• Communicate early and often to build trust. • Ensure consistency of message. • Encourage two-way communication. • Provide information to meet specific needs of employees.
Involve employees to obtain their ideas and gain their ownership for the transformation.	• Use employee teams. • Involve employees in planning and sharing performance information. • Incorporate employee feedback into new policies and procedures. • Delegate authority to appropriate organizational levels.
Build a world-class organization.	• Adopt leading practices to build a world-class organization.

Source: GAO

February 2004

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Highlights

Highlights of GAO-04-343SP.

HIGHLIGHTS OF A GAO FORUM

High-Performing Organizations: Metrics, Means, and Mechanisms for Achieving High Performance in the 21st Century Public Management Environment

Why GAO Convened This Forum

As we face the challenges of the 21st century, the federal government must strive to build high-performing organizations. Nothing less than a fundamental transformation in the people, processes, technology, and environment used by federal agencies to address public goals will be necessary to address public needs. In high-performing organizations, management controls, processes, practices, and systems are adopted that are consistent with prevailing best practices and contribute to concrete organizational results. Ultimately, however, the federal government needs to change its culture to become more results-oriented, client- and customer-focused, and collaborative in nature.

On November 6, 2003, GAO hosted a forum to discuss what it means for a federal agency to be high-performing in an environment where results and outcomes are increasingly accomplished through partnerships that cut across different levels of government and different sectors of the economy. The forum included discussions of the metrics, means, and mechanisms that a federal agency should use to optimize its influence and contribution to nationally important results and outcomes. The forum included representatives of the public, not-for-profit, and for-profit sectors as well as academia who are knowledgeable of what it takes for organizations to become high-performing.

www.gao.gov/cgi-bin/getrpt?GAO-04-343SP.

To view the full product click on the link above. For more information, contact J. Christopher Mihm, Managing Director, Strategic Issues on (202) 512-6806 or mihmj@gao.gov.

What Participants Said

There was broad agreement among participants at the forum on the key characteristics and capabilities of high-performing organizations, which comprise four themes as follows:

- **A clear, well-articulated, and compelling mission.** High-performing organizations have a clear, well-articulated, and compelling mission, the strategic goals to achieve it, and a performance management system that aligns with these goals to show employees how their performance can contribute to overall organizational results.
- **Strategic use of partnerships.** Since the federal government is increasingly reliant on partners to achieve its outcomes, becoming a high-performing organization requires that federal agencies effectively manage relationships with other organizations outside of their direct control.
- **Focus on needs of clients and customers.** Serving the needs of clients and customers involves identifying their needs, striving to meet them, measuring performance, and publicly reporting on progress to help assure appropriate transparency and accountability.
- **Strategic management of people.** Most high-performing organizations have strong, charismatic, visionary, and sustained leadership, the capability to identify what skills and competencies the employees and the organization need, and other key characteristics including effective recruiting, comprehensive training and development, retention of high-performing employees, and a streamlined hiring process.

During the forum, the Comptroller General offered several options that the Congress, the executive branch, and others could pursue to facilitate transformation and to achieve high performance in the federal government. Several of the participants provided their views and experiences with these options. These options included:

- establishing a governmentwide transformation fund where federal agencies could apply for funds to make short-term targeted investments, based on a well-developed business case;
- employing the Chief Operating Officer concept or establishing a related senior management position, such as a Principal Under Secretary for Management and/or Chief Administrative Officer, to provide long-term attention and focus on management issues and transformational change at selected federal agencies; and
- examining certain federal budget reforms, such as a biennial budget process, which could encourage the Congress and federal agencies to focus on long-range issues and possibly provide more time for oversight of existing government programs, policies, functions, and activities.

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Highlights

Highlights of GAO-04-38, a report to congressional requesters

March 2004

RESULTS-ORIENTED GOVERNMENT

GPRA Has Established a Solid Foundation for Achieving Greater Results

Why GAO Did This Study

Now that the Government Performance and Results Act (GPRA) has been in effect for 10 years, GAO was asked to address (1) the effect of GPRA in creating a governmentwide focus on results and the government's ability to deliver results to the American public, (2) the challenges agencies face in measuring performance and using performance information in management decisions, and (3) how the federal government can continue to shift toward a more results-oriented focus.

What GAO Recommends

GAO recommends that the Office of Management and Budget (OMB) improve its guidance and oversight of GPRA implementation, as well as develop a governmentwide performance plan. GAO also believes Congress should consider amending GPRA to require that (1) agencies update their strategic plans at least once every four years, consult with congressional stakeholders at least once every new Congress, and make interim updates to strategic and performance plans as appropriate; and (2) the President develop a governmentwide strategic plan. OMB generally agreed with our recommendations, but stated that the President's Budget can serve as both a governmentwide strategic and annual plan. However, we believe the budget provides neither a long-term nor an integrated perspective on the federal government's performance.

www.gao.gov/cgi-bin/getrpt?GAO-04-38.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Patricia A. Dalton at (202) 512-6806 or daltonp@gao.gov.

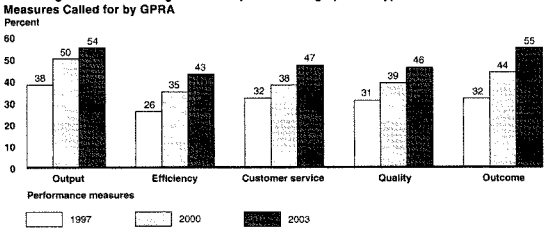
What GAO Found

GPRA's requirements have established a solid foundation of results-oriented performance planning, measurement, and reporting in the federal government. Federal managers surveyed by GAO reported having significantly more of the types of performance measures called for by GPRA (see figure below). GPRA has also begun to facilitate the linking of resources to results, although much remains to be done in this area to increase the use of performance information to make decisions about resources. We also found agency strategic and annual performance plans and reports we reviewed have improved over initial efforts.

Although a foundation has been established, numerous significant challenges to GPRA implementation still exist. Inconsistent top leadership commitment to achieving results within agencies and OMB can hinder the development of results-oriented cultures in agencies. Furthermore, in certain areas, federal managers continue to have difficulty setting outcome-oriented goals, collecting useful data on results, and linking institutional, program, unit, and individual performance measurement and reward systems. Finally, there is an inadequate focus on addressing issues that cut across federal agencies.

OMB, as the focal point for management in the federal government, is responsible for overall leadership and direction in addressing these challenges. OMB has clearly placed greater emphasis on management issues during the past several years. However, it has showed less commitment to GPRA implementation in its guidance to agencies and in using the governmentwide performance plan requirement of GPRA to develop an integrated approach to crosscutting issues. In our view, governmentwide strategic planning could better facilitate the integration of federal activities to achieve national goals.

Percentage of Federal Managers Who Reported Having Specific Types of Performance Measures Called for by GPRA



Source: GAO.

November 2004

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Highlights of GAO-05-1, a report to the Chairman, Subcommittee on Science, Technology, and Space, Committee on Commerce, Science, and Transportation, U.S. Senate.

INFORMING OUR NATION

Improving How to Understand and Assess the USA's Position and Progress

Why GAO Did This Study

There has been growing activity and interest in developing a system of key national indicators that would provide an independent, trusted, reliable, widely available, and usable source of information. Such a system would facilitate fact-based assessments of the position and progress of the United States, on both an absolute and relative basis. This interest emerges from the following perspectives.

- The nation's complex challenges and decisions require more sophisticated information resources than are now available.
- Large investments have been made in indicators on a variety of topics ranging from health and education to the economy and the environment that could be aggregated and disseminated in ways to better inform the nation.
- The United States does not have a national system that assembles key information on economic, environmental, and social and cultural issues.

Congressional and other leaders recognized that they could benefit from the experiences of others who have already developed and implemented such key indicator systems. GAO was asked to conduct a study on: (1) The state of the practice in these systems in the United States and around the world, (2) Lessons learned and implications for the nation, and (3) Observations, options, and next steps to be considered if further action is taken.

www.gao.gov/cgi-bin/getrpt?GAO-05-1.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Christopher Hoenig at (202) 512-6779 or hoenigc@gao.gov.

What GAO Found

GAO studied a diverse set of key indicator systems that provide economic, environmental, social and cultural information for local, state, or regional jurisdictions covering about 25 percent of the U.S. population—as well as several systems outside of the United States. GAO found opportunities to improve how our nation understands and assesses its position and progress.

Citizens in diverse locations and at all levels of society have key indicator systems. Building on a wide array of topical bodies of knowledge in areas such as the economy, education, health, and the environment, GAO found that individuals and institutions across the United States, other nations, and international organizations have key indicator systems to better inform themselves. These systems focus on providing a public good: a single, freely available source for key indicators of a jurisdiction's position and progress that is disseminated to broad audiences. A broad consortium of public and private leaders has begun to develop such a system for our nation as a whole.

These systems are a noteworthy development with potentially broad applicability. Although indicator systems are diverse, GAO identified important similarities. For example, they faced common challenges in areas such as agreeing on the types and number of indicators to include and securing and maintaining adequate funding. Further, they showed evidence of positive effects, such as enhancing collaboration to address public issues, and helping to inform decision making and improve research. Because these systems exist throughout the United States, in other nations, and at the supranational level, the potential for broad applicability exists, although the extent of applicability has yet to be determined.

Congress and the nation have options to consider for further action. GAO identified nine key design features to help guide the development and implementation of an indicator system. For instance, these features include establishing a clear purpose, defining target audiences and their needs, and ensuring independence and accountability. Customized factors will be crucial in adapting such features to any particular level of society or location. Also, there are several alternative options for a lead entity to initiate and sustain an indicator system: publicly led, privately led, or a public-private partnership in either a new or existing organization.

Observations, Options, and Next Steps

Key indicator systems merit serious discussion at all levels of society, including the national level, and clear implementation options exist from which to choose. Hence, Congress and the nation should consider how to

- improve awareness of these systems and their implications for the nation,
- support and pursue further research,
- help to catalyze discussion on further activity at subnational levels, and
- begin a broader dialogue on the potential for a U.S. key indicator system.

December 2004

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Highlights

Highlights of GAO-05-69SP

HIGHLIGHTS OF A FORUM

Human Capital: Principles, Criteria, and Processes for Governmentwide Federal Human Capital Reform

Why GAO Convened This Forum

There is widespread agreement that the federal government faces a range of challenges in the 21st century that it must confront to enhance performance, ensure accountability, and position the nation for the future. Federal agencies will need the most effective human capital systems to address these challenges and succeed in their transformation efforts during a period of likely sustained budget constraints.

More progress in addressing human capital challenges was made in the last 3 years than in the last 20, and significant changes in how the federal workforce is managed are underway.

On April 14, 2004, GAO and the National Commission on the Public Service Implementation Initiative hosted a forum with selected executive branch officials, key stakeholders, and other experts to help advance the discussion concerning how governmentwide human capital reform should proceed.

www.gao.gov/cgi-bin/getrpt?GAO-05-69SP

To view the full product, including the scope and methodology, click on the link above. For more information, contact J. Christopher Mihm at (202) 512-6806 or mihmj@gao.gov.

What Participants Said

Forum participants discussed (1) Should there be a governmentwide framework for human capital reform? and (2) If yes, what should a governmentwide framework include?

There was widespread recognition that a "one size fits all" approach to human capital management is not appropriate for the challenges and demands government faces. However, there was equally broad agreement that there should be a governmentwide framework to guide human capital reform built on a set of beliefs that entail fundamental principles and boundaries that include criteria and processes that establish the checks and limitations when agencies seek and implement their authorities. While there were divergent views among the participants, there was general agreement that the following served as a starting point for further discussion in developing a governmentwide framework to advance needed human capital reform.

Principles

- Merit principles that balance organizational mission, goals, and performance objectives with individual rights and responsibilities
- Ability to organize, bargain collectively, and participate through labor organizations
- Certain prohibited personnel practices
- Guaranteed due process that is fair, fast, and final

Criteria

- Demonstrated business case or readiness for use of targeted authorities
- An integrated approach to results-oriented strategic planning and human capital planning and management
- Adequate resources for planning, implementation, training, and evaluation
- A modern, effective, credible, and integrated performance management system that includes adequate safeguards to ensure equity and prevent discrimination

Processes

- Prescribing regulations in consultation or jointly with the Office of Personnel Management
- Establishing appeals processes in consultation with the Merit Systems Protection Board
- Involving employees and stakeholders in the design and implementation of new human capital systems
- Phasing in implementation of new human capital systems
- Committing to transparency, reporting, and evaluation
- Establishing a communications strategy
- Assuring adequate training

United States General Accounting Office October 2002

HIGHLIGHTS OF A GAO ROUNDTABLE
The Chief Operating Officer Concept: A Potential Strategy to Address Federal Governance Challenges

Highlights of GAO-03-192SP

Why GAO Convened This Roundtable

The federal government is in a period of profound transition that requires a comprehensive review, reassessment, reprioritization, and reengineering of what the government does, how it does business, and, in some cases, who does the government's business. Agencies will need to transform their cultures so that they are more results oriented, customer focused, and collaborative in nature. At the same time, GAO's work over the years has amply documented that agencies are suffering from a range of long-standing management problems that are undermining their abilities to efficiently, economically, and effectively accomplish their missions and achieve results.

On September 9, 2002, GAO convened a roundtable to discuss the application and the related advantages and disadvantages of the Chief Operating Officer (COO) concept and how it might apply within selected federal departments and agencies as one strategy to address certain systemic federal governance and management challenges. The invited participants have current or recent executive branch leadership responsibilities, significant executive management experience, or both.

What Participants Said

At the roundtable, participants generated ideas and engaged in an open dialogue on the possible application of the COO concept. There was general agreement that the following three themes provide a course for action.

Elevate attention on management issues and transformational change. The nature and scope of the changes needed in many agencies require the sustained and inspired commitment of the top political and career leadership.

Integrate various key management and transformation efforts. While officials with management responsibilities often have successfully worked together, there needs to be a single point within agencies with the perspective and responsibility—as well as authority—to ensure the successful implementation of functional management and, if appropriate, transformational change efforts.

Institutionalize accountability for addressing management issues and leading transformational change. The management weaknesses in some agencies are deeply entrenched and long standing and will take years of sustained attention and continuity to resolve. In addition, making fundamental changes in agencies' cultures will require a long-term effort. In the federal government, the frequent turnover of the political leadership has often made it difficult to obtain the sustained and inspired attention required to make needed changes.

Within the context of these generally agreed-upon themes, the participants offered a number of ideas to help address management weaknesses and drive transformational change.

The full special publication is available at www.gao.gov/cgi-bin/getrpt?GAO-03-192SP. For additional information about the special publication, contact J. Christopher Mihm, Director, Strategic Issues on (202) 512-6806 or mihmj@gao.gov.

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Mr. PORTER. Thank you very much, Mr. Walker.

Mr. McTigue, welcome. I think you are going to address some solutions also. We appreciate your being here.

STATEMENT OF MAURICE P. MCTIGUE

Mr. MCTIGUE. Thank you, Mr. Chairman. Yes, indeed. First, I applaud the concept of government organizations being innovative, creative in solving societal problems.

I also support the theory and reasoning captured in the paper by Speaker Newt Gingrich. The constraint and standardization of the industrial revolution is not the culture for successful 21st century organizations. However, the culture of organizations do not change just because we ask them to change. The incentives in these organizations must change to produce the desired culture change. This means that talking must be converted into action on the structural change necessary to get the desired result.

My written testimony takes the entrepreneurial ideas espoused by Speaker Gingrich and suggests the changes necessary to produce private sector organizations with a clear view of what success looks like, strong accountability for results achieved, and the flexibility to resolve the societal challenges that are requested to be addressed.

My recommendations, however, are not based on theoretical managerial concepts, but are based on the practical experience of having been personally involved in implementing such change to the machinery of government in New Zealand, both as an elected member of parliament and as a member of cabinet.

The work we do at the Mercatus Center at George Mason University is convincing us more and more that the cost of creating successful organizations is closely linked to a strong and well designed system of accountability. If the accountability regime focuses on accountability for the completion of tasks and accounting for expenditures, then the organization becomes process-oriented and tends to be bureaucratic. If the accountability regime focuses on successfully making progress on outcomes, then the organization is much more likely to identify and use best practice to seek new and better ways of maximizing progress toward the outcome, and generally develops an entrepreneurial or success-oriented culture.

However, if management is charged with accountability for outcomes, but constraints outside management's control are placed on the operation of the organization, then both morale and performance will be adversely affected. Therefore, accountability for outcomes will only produce optimal results if management is given the freedom to manage and the opportunity to succeed.

Mr. Chairman, in the points that I make in my written presentation to you, I am making a suggestion that inside the organizations of government there should be a division between the directorship of the organization and the day-to-day management. The day-to-day management of the organization should be done by the career professionals who have long experience in delivering those outputs, but that the role the appointee should be the guidance or the directorship of the organization and should stay in the policy field.

That, I know, would be a major change for the way in which the Government of the United States works, but I believe it is the right course of action. That the people who run the day-to-day operations should be there because of their competency to do the job. They should have a CEO kind of stature and they should have term contracts that gives them permanence of authority, that means that the decisions that they make will be carried out by the organization.

But if this is going to work, then the funding process itself also needs to be changed. An appropriation really, in psychological terms, is a grant of money addressed at a particular outcome, with the expectation that it is going to produce a result. A much more viable way of doing that is to purchase from delivery organizations a specific set of outputs that are designed to produce the outcome that you want.

Under that purchase agreement, there is a clear indication of exactly what it is that has to be approved and there is a strong ability for accountability. In that image, you are looking at something that focuses very much on the outcome rather than focusing on the output. If I were to challenge something that you said before, Mr. Chairman, I would say this.

You made the comment that employees often don't know what their job is or what is expected of them. And I would say that maybe the instructions from their bosses don't clearly describe what they expect from them. For example, currently there are hundreds of billions of dollars in activities funded each year that have not as yet been reauthorized. That process of reauthorization could make it very clear exactly what it is that Congress expects from that outcome.

Let me just take one of the simplest examples. Each year Congress funds a very significant quantity of money for food stamps. The purpose of that is to feed hungry people. Yet, food stamps are never going to eliminate hunger, because all they do is address the consequence of hunger: the fact that there are hungry people there.

The reauthorization of that process should very clearly say that over a period of time the United States intends to eliminate hunger. That would bring about a very different set of programs that are based upon what caused the hunger in the first place. Maybe the person can't read or write; maybe the person is new to the United States; maybe the person has a disability. But what could we do to alleviate those problems so the person could no longer be hungry?

Is this new? The answer, in my view, is no. Back about 1960, John F. Kennedy said, after the launch of Sputnik, "We are going to be the first on the moon." Didn't have any idea how you were going to get there, nor did anybody else in the Government have any idea how you were going to get there. But there was a very clear vision of what the challenge was, getting to the moon. But not only what the challenge was, but the priority: it wasn't going to be good enough to be there second, it was only good enough if you got there first. And, of course, the Government was entrepreneurial enough to be able to succeed in that challenge.

What we are lacking at the moment is a clear vision given to your organizations that says this is the role. We expect from Home-

land Security that you will improve the safety of Americans at home by 10, 15, or 20 percent per annum. We are not offering that challenge. And it is possible to measure whether or not that is happening. We should be saying that the challenges to each year commission, this number of new enterprises among our economically disadvantaged and minority groups in society, but all we do is devote money to it and hope that we are going to get that result.

One of my colleagues has a great description for that, Mr. Chairman. He says that if you allocate money to something that you want to see achieved, and don't have a clear view of how that is going to be done, that is what you call a faith-based initiative. And, unfortunately, a great deal of the budget is faith-based initiatives. Thank you, Mr. Chairman.

[The prepared statement of Mr. McTigue follows:]

MERCATUS CENTER
GEORGE MASON UNIVERSITY

TESTIMONY

From

The Hon. Maurice P. McTigue, Q.S.O.
Distinguished Visiting Scholar
Mercatus Center at George Mason University

For

Committee on Government Reform
United States House of Representatives

Subcommittee on the Federal Workforce and Agency Organization

July 13th 2005
On

"Turning Bureaucrats into Plutocrats: Can Entrepreneurialism Work in the Federal Government"

The Machinery of Government

Introduction

Mr. Chairman, I thank you and the members of the Committee for the invitation to give testimony in front of your committee.

Mr. Chairman a strict interpretation of the title of this hearing might create an undesirable impression. The concept of plutocracy is a form of governance that is unlikely to gain any public support. Governing by an elite class of the wealthy would be a major step backwards, so I am opposed to turning bureaucrats into plutocrats. This was probably an unintentional use of the term plutocrat. With regard to entrepreneurialism, if it refers to innovative and creative agencies that continuously find new and better ways of succeeding at their assigned tasks and producing better outcomes for the public, then I am fully supportive. If, however, it means agencies are

supposed to continually seek out new things to do, regardless of congressional intent, then I am opposed. The challenge of public management is to incentivize agencies to utilize creativity and ingenuity in producing the outcomes that policymakers have decided they want to achieve.

In fact, what I believe we are all seeking here is a results focus on management in government that will find innovative and creative ways to solve societal problems. That is the concept that I address with this testimony.

My comments are based upon the practical experience of being an elected Member of Parliament and a Cabinet member in the Government of New Zealand when that country was making massive changes to the machinery of government. The structural changes that I recommend are not merely theories or proposals, but a recounting of actual changes made and the reasoning for those changes. I am also confining my comments to broad principles rather than minute detail; however, I am happy to provide much more detail through questions at the hearing or by written response later.

A rephrasing of the question that led to this testimony could read: What changes would need to be made to the business practices of government departments and agencies to make them more innovative and successful in solving societal problems? My answer to that query is contained in part in the rationale laid out in the written testimony of Speaker Newt Gingrich. The other part of my answer is contained in the structural changes that I recommend in what I describe as the "Machinery of Government".

My definition of the Machinery of Government is: those processes and structures that convert the intent of the majority of our democratically elected representatives into actions that produce the desired outcomes in the form of benefits to the public.

To understand the operation of this machinery of government it is necessary to accept this very simplified description of how the process of government functions. Governments are traditionally made up of the following two structures: control agencies and delivery organizations.

Control Agencies

In most functioning democracies, typically the following control agencies exist with some form of the roles I describe here:–

> The Administration: (The White House) Normally responsible for policy development and setting the government's agenda.
>
> The Legislature: (The Congress) Empowered to pass laws, to accept or decline policy initiatives, approve taxes and determine both the quantity and the purposes upon which tax monies will be spent also responsible for the review of results achieved.
>
> The Finance Department: (The Office of Management and Budget) Responsible for the preparation of the budget (the governments spending plan), the monitoring of spending to

see that it complies with the instructions in appropriations, the review and costing of policy initiatives, and to provide economic advice to government

The Personnel Department: (Office of Personnel Management) Responsible for the government's human capital and ensuring that the government has the skills and talent necessary to carry out the services required for the successful functioning of government. (This is frequently a weak and misunderstood role.)

Delivery Organizations

Delivery organizations are those departments and agencies of government responsible for carrying out the activities approved by policymakers and producing the desired public benefit determined by the political process. These organizations may undertake the delivery of services themselves or sub-contract that activity to other levels of government, to the voluntary sector, the non-profit sector, to private sector businesses or to other non-government groups. Regardless of the arrangement made, the agency in charge of contracting out the activity should remain accountable for the result. These activities are funded either by appropriation or by cost recovery from the consumers of their goods and services.

Traditionally governments have chosen to use a bureaucratic model for the management of these organizations, but more and more, governments are moving to a new results- based management style. The following is a cursory description of the two different models.

The Bureaucratic Model

Most governments traditionally have operated a management system for its departments based upon the bureaucratic model. Under this system, the department tended to develop over time the mantle of an institution of government with something of a divine right to exist in perpetuity. Therefore, questioning the institution's performance was fraught with implied recrimination. The original purpose of the organization also was often lost in antiquity and masked by its expansion into areas of activity that bore little or no relationship to its core business. In other words, these institutions had become conglomerates with the lack of focus and accountability that often plagues conglomerates.

This model, in very general terms, worked on the basis of an allocation of money by the legislature to a specific activity that was directed at a societal issue. The allocation tended to focus on controlling inputs and defining the activity, while accountability tended to concentrate on whether the money was spent on the identified activity and whether the activity did indeed take place. In this model, the benefit tended to be presumed because the money was spent as directed. Measurement focused on the quantity of activity rather than the benefit produced. The culture of bureaucracies tended to develop around the concept of serving the demands of the administration and the legislature rather than addressing and solving the needs of the people. In only rare cases was there a requirement to produce evidence that the desired outcome was actually achieved.

The implicit assumption of this management model is that beneficial results would occur automatically as long as the agency spent its appropriations as directed. No creativity or ingenuity on the part of the agency was considered necessary; policymakers exercised all the ingenuity necessary when they created the program and specified how the agency was to spend the money.

In my view, it is this management model more than anything else that has led to such poor performance in affluent countries on issues like homelessness, illiteracy, dependency, poverty, and crime. The desire of the legislature to control the activity rather than demand the outcome contributed to this lack of success.

The Results Based Model

In recent times, governments have started to question whether they were getting the public benefits they sought through the bureaucratic model and whether a better system of management might be available. This analysis has moved many governments to adopt a variety of new systems where there is a shift in the focus of accountability towards measuring results. In this model, the allocation of resources takes the form of a purchase agreement where a certain activity is predicted to produce a specific result and the agency is, in turn, held accountable for achieving that result.

This is an evolving process and no one system is perfect. Yet, the evidence points to improvements in both resource allocation and in the quantity of public benefit achieved. The difference in philosophy is that the results model focuses more of the accountability on the outcome and less on the outputs and inputs. For example, the measures of success would be the reduction of crime, not the number of prosecutions; the reduction of dependency, not the numbers of people who received transfer payments, the number of sustainable new businesses started, not the quantity of businesses assisted etc.

Designing the Organizations of the Future

If there is to be a move towards a results-based culture, then the structures of accountability and the relationship between the government and its delivery organizations needs to change. It is unreasonable to expect organizations and individuals to adopt a culture of accountability based on assessing their performance against the results produced unless they are given a structure that enables them to succeed under this result- based accountability regime. Such a system must also produce incentives and rewards that encourage this culture shift towards results accountability.

The following principles are essential to the success of any move towards results based accountability in government.

Principle One: Certainty and Clarity

If the Government of the United States is to improve the wellbeing of its citizens and the health of its economy, then achieving clarity and certainty with regard to government's intentions is the first place to start.

If people working in government are to be held accountable to a new standard, then they need to know with precision what they are accountable for and to whom they are accountable. This means they need certainty in leadership (at a day-to-day managerial level) and certainty in terms of what they are to deliver.

Directorship

When establishing results-focused government organizations, it is essential to address two managerial functions: directorship and management. Government organizations need to separate these two functions. Directorship is the prerogative of the Administration's appointees; it involves determining policy initiatives and the priority given to initiatives. Decisions taken at this level would then form the basis of the instruction to the management function to deliver that desired outcome. By this mechanism, control over the activities of the organization would remain where it should – with the political process.

Congress' control comes through the authorization and appropriations processes.

Management

Management is the function that takes responsibility for the delivery of the directorship's desired services. This function needs to be based on competency to manage and deliver results. It should have a permanence and competency that gives clarity of purpose, clear leadership and authority to employees, and confidence to the public. The managerial function should not be exposed to the vagaries of the changing fortunes of the political process. However, it should remain accountable to the political process for the delivery of the goods and services commissioned by that political process. This would smooth the transition from one Administration to another – seeing that day-to-day activity continued until different policy was approved.

Chief Executive Officer

The organizations of the future should be managed by a Chief Executive Officer (CEO) who is chosen based on evidence of competency to do the job. These should be jobs that are widely advertised and available to people with the capability of successfully managing this organization. The preeminent qualification for selection should be competency, and the grounds for termination should be non-performance. Appointment to these positions should not be a sinecure for existing civil servants.

Once chosen, this CEO should be given a fixed-term contract that can only be terminated for non-performance. There should be the opportunity for a once-only extension of this contract at the end of the initial term – after which, the appointee must leave. The cumulative term available to a CEO at any organization should be less than 10 years. Remuneration should be based upon market rates for similar executive responsibilities in the private sector. Any linkages to the salaries of Members of Congress, the Administration or the President should be terminated.

The CEO should be directly accountable to a political person -- presumably a Cabinet Secretary who would negotiate with the CEO a performance contract that would determine if the CEO was doing the job expected. The Cabinet Secretary, with or without the input of the other political appointees making up the directorship of the organization, would have responsibility for identifying the outcomes the CEO is expected to produce. The Cabinet Secretary would also have responsibility for defining with the CEO the core business of the organization, but the CEO would be responsible for the day-to-day operations of the organization.

In a similar manner, the CEO would negotiate performance contracts with his or her management team and throughout the organization. The purpose of these performance contracts is to not only provide clarity about tasks and purpose at all levels, but also to move the organization to a results culture. The end result would be that all employees were working on an individual performance contract directly linked to the function they carried out in the organization.

The Funding Process

To provide clarity with regard to what is expected to be delivered, appropriations, once passed by the Legislature, would be converted into purchase contracts with the CEO. These would be legally enforceable public documents that could only be changed by agreement with all of the parties. These purchase documents would be the result of intense negotiations between the Cabinet Secretary and the CEO to determine the price, quantity, and priority of outputs that need to be produced to achieve the outcome the government desires. They would also be available to the legislature during its consideration of the budget. The CEO can challenge the purchase contract if the contract is undeliverable because the outputs are inappropriately priced, or the activities will not deliver the desired outcome, or if resources have been directed in such a manner as to prejudice optimal performance.

With this clarity regarding deliverables, a very strong basis for accountability exists. Failure to deliver the outputs specified in the purchase contract would be grounds for dismissal of the CEO. However, full delivery of the contract by the CEO and a failure to achieve the outcome sought would be a policy failure and the fault of the policymakers , because they bought the wrong goods and services. Because the CEO and the department is governed by the requirements of the purchase contract, it is not possible for the department to be required to undertake unfunded mandates during the year; they are required to deliver only what is in that purchase agreement. Any change to the activities of the department during the year must be reflected by changes to the purchase agreement. That means that the Cabinet Secretary or the Legislature must either agree to eliminate some current activity to fund the new activity or provide additional monies.

Principle Two: Authority to Manage

If the CEO is to be successful in producing a results-based, high performance organization, then he or she must be given the authority to manage. There must be absolute certainty over the definition of the organization and its core business and authority to manage all of the physical assets, the hiring firing and remuneration of staff and the disposition of all inputs and resources.

Given that negotiations between the Cabinet Secretary and the CEO have established the core business of the organization, then latitude can be given in the following areas. If the CEO and the organization are to have a realistic chance to succeed in producing results, then they need full authority to manage all the resources available in a manner consistent with achieving the results sought in the contract. This means full control over the number of staff, their remuneration and terms and conditions of employment, purchase of inputs, the management and disposal of capital assets and the location of new facilities.

The development of a full set of books for the organization identifying all financial and physical assets, all revenues and all expenditures, and complying with generally accepted accounting standards, is essential. These books should be independently audited annually. It is also appropriate to impose incentives like a capital charge to make certain that the government is getting the best value out of its resources. By contrast, however, it is unacceptable to impose input controls on staff numbers or on the skill or grade levels of staff, as these are inherently the functions of management. Accountability should lie in the delivery of outputs.

It is appropriate to have in the performance agreement with the CEO a clause reviewing the organization's performance status. This can be most effectively assessed by measuring whether the government's ability to be effective in this organizations field has improved, remained static or diminished. Unsatisfactory performance against this criterion would also meet the grounds for non-performance dismissal.

Structural Changes Consequential to the Changes Recommended Above

Office of Personnel Management (OPM)

The concept of a central employing agency for the government is redundant, and OPM should cease to have that function. CEOs should be held responsible for meeting the criteria of being a good employer, for choosing the right talent for their organization and determining appropriate remuneration and performance incentives based on current labor market conditions. If they are not capable of managing that responsibility successfully, then they should not be CEO.

If OPM is to have a role into the future, it should be to guarantee to the President the capability needs in each government organization to ensure successful completion of the government's agenda. This would involve auditing organizations' current human capital capability, identifying their human capital capability needs of the future, and helping organizations design strategies to bridge the gap. OPM should also be the advisor to the President and Congress on human capital risks facing the government and the potential consequences of those risks. Absent this role, OPM as an organization should cease to exist.

Congress

For these reforms to be successful there would need to be reforms to Congress as well. As political management of the future will succeed or fail on its ability to produce the outcomes the public needs, then Congress's approach to its business needs to reflect its concentration on meeting those public expectations.

Congress needs to scrap, in total, its current committee structure and build a new committee structure around sectoral outcomes. Under this structure, committees would become expert in a particular sector, and all issues affecting that sector would be referred to that committee regardless of which department was handling that issue. For example, all issues on education would go to the education committee, all issues on security would go to the security committee, all issues on agriculture would go to the agriculture committee, and all issues on transportation would go to the transportation committee. Added to this, all oversight committees should be required to examine the budget relating to their sectoral area and make recommendations to the appropriations committee on acceptance or rejection of Administration proposals. Appropriators should be required to take note of the recommendations of oversight committees and give reasons why they decided to reject the recommendation of an oversight committee.

Such a restructuring of Congress would also require the development of a new set of appropriation accounts that reflected the new approach by government of managing towards outcomes.

Re-authorization

Congress needs to urgently deal with the backlog of re-authorizations. The amount of unauthorized activity currently being funded runs into the hundreds of billions of dollars. But this backlog also constitutes an opportunity, as the re-authorization process provides the opportunity to much more specifically target this activity.

Each re-authorization should identify:

- What caused this problem?
- Will this activity eliminate the cause of the problem or will it only alleviate the consequences of the problem?
- What is the outcome sought?
    - e.g. Improved literacy
- How much is illiteracy to be reduced?
    - e.g. 60%
- Over what period of time?
    - e.g. Five years
- When will this problem be eliminated?
    - e.g. 10 years from now

Such precise direction would bring a whole new level of energy to the problem and the opportunity for dramatically improved accountability.

Conclusion

While this statement makes these recommendations seem rather straightforward and easy to accomplish, let me assure you they are not. The details that are not present in this paper are prodigious and difficult, but the end results are worthy of the effort. Some 16 years after

initiating these changes in the government of New Zealand, you will not find any advocates in the civil service for a return to the old management systems. Prior to making these changes, public approval ratings for government organizations hovered around 30 percent; five years later it was above 70 percent and it has remained consistently at this higher level of approval. In my view, the minimum standard we should expect from our public organizations is a managerial and results performance equivalent to that of the top 5 percent of the Fortune 500 companies in the private sector. Given the right structure and the right incentives, that can be achieved.

APPENDIX I

Note: The following appendix is a précis of some of the changes that have occurred in other governments around the world. Some of the research in the appendix is now dated, as the study was done some time ago. However, it still provides some indication of the approach taken by these countries.

How did the Government of New Zealand address these challenges?

Starting around 1986 the Government of New Zealand commenced a massive reform of the civil service, the departments and agencies of the government and the relationship between The Cabinet, The Parliament, and The Departments.

The goals of these reforms were:

- To make the government effective at solving social and economic problems that had been plaguing the country for the previous 30 years.
- To terminate our long history of running government deficits. (Twenty-three successive years)
- To improve the competitiveness of New Zealand businesses in the world marketplace.
- To lower the burden of taxation on New Zealanders while improving the fairness of the tax system and concurrently to encourage Foreign Direct Investment in New Zealand.
- To lower levels of unemployment by creating more jobs in the economy.
- To dramatically improve the performance of the Government's departments.
- To make Government accountable for achieving the public benefits it had promised.

The goals mentioned above include a number that are policy related but I am now going to focus only on the agencies of government role in the process of reform.

The Reform Process

The standard for reforming the departments of the government was to ensure that they be equal in managerial skill and achievement to the top 10 percent of companies in the private sector.

The first stage in the process was to evaluate the procedures for governance of the Government's organizations and management of the Government's resources. This evaluation process led to the writing of a new law "The State Sector Act" and the repeal of all the old laws that controlled the

public sector. This new law was designed to provide a managerial and governance structure that would allow these departments to perform with the same levels of success and competence as their private sector counterparts.

- The first principle of this new law was that the Government bought goods and services from these organizations designed to achieve specific social or economic results. So the new relationship was to be built around a purchase and delivery agreement. This document was in the form of a contract and was binding on both parties and could only be changed during the term of the contract by the agreement of both parties. It was also designed to give absolute clarity as to what was to be achieved

- The next principle was personal responsibility for performance. The Manager of the department should be held personally responsible for the performance of the department in delivering the goods and services specified in the purchase agreement.

To put these principles into action, a new position was created that was equivalent to a private sector Chief Executive Officer (CEO).

- This CEO is chosen based on evidence of their competency to do the job.
- The position is advertised worldwide.
- A panel of experts interviews the applicants and the successful candidate is chosen and a recommendation is made to Cabinet that this person should be appointed.
- Cabinet by law may only accept or reject the recommendation. It may not nominate an alternative.
- Once accepted the candidate is given a term contract of employment for 5 years with a possible extension of 3 more years. Then, they must leave the position.
- This contract may only be terminated for non-performance of the assigned duties.
- A new Government or a new Minister cannot terminate this contract for political or preference reasons.

One of the reasons for this initiative is to guarantee to the nominee security of tenure so managerial change can be effectively implemented. Incidentally, about 40 percent of the successful applicants have not been New Zealanders.

Together with the employment contract the Cabinet Minister holding the portfolio for that department will have a performance agreement with the CEO. This will stipulate the performance expectations of the Minister, the criteria for earning bonuses, and the conditions for increases in salary plus other appropriate requirements of the CEO.

- The duty of the CEO is to implement fully the purchase contract, which will specify the quantity of each service to be provided, its quality, timeliness, availability throughout the country, the target groups in society it is meant to service and the price per unit.
- The CEO has total control over all assets of the Department, how many staff he or she employs, what qualifications they have and how much they are paid.
- The CEO also has total control over all purchasing arrangements for the department and also for the negotiating and managing of all contractual activity affecting the department.

- Neither the Minister nor the Parliament can interfere in the day-to-day running of the department. The only way the Minister or Parliament can change what the CEO is doing is to change the purchase contract.

Ministerial control comes from negotiating the purchase contract and then including it in the Government's Budget.

Parliamentary control comes from approving the Budget and the purchase contract.

The CEO's control comes from being able to manage all the resources at his or her disposal in the best possible manner to achieve the agreed results. Failing to produce the agreed results could also cost the CEO his job, as that would be a clear case of non-performance.

The CEO naturally has similar contractual arrangements with his or her senior management team and indeed every civil servant now has a performance agreement. Wages, salaries, and terms and conditions are by negotiation and could differ significantly between departments with the rules of supply and demand applying. Exit and re-entry to the civil service has been made much easier so that it is possible to attract people back into public service after they have spent time in the private sector. Many of their benefits as public employees have full portability. Financial loss does not preclude mobility among employees since much of the best practice is imported with new or returning employees.

While there was considerable apprehension from civil servants at the beginning of this process it would be difficult to find one civil servant today who would want to go back to the old way of running departments.

The Results

- What did the public think?
- In the mid-1980's polling told us that the public gave government departments about a 30 percent approval rating. By the mid-1990's that approval rating had shot up to a 70 percent approval rating.
- Why had public opinion changed so dramatically? Now the public could see that government was making progress on important issues. The economy was growing strongly, unemployment had fallen sharply from 12 percent to 4.5 percent, per capita income had climbed into the top ten in the world, social problems like dependency, were falling and schools were improving.
- The real answer though was that we now had government organizations that were equal in performance to the best in the private sector they were focused on achieving their goals and they had developed a non- partisan, highly skilled, highly ethical professional workforce that was committed to succeeding.

Is the experience of New Zealand unique?

The answer is a resounding no. There are many countries that are pursuing reform with significant success but here are three that are comparable:

Singapore

- The key to its success: It pays its 70,000 civil servants well. An entry-level administrative officer makes S$33,000 (US $33,000).
- Prior to gaining independence in 1959, Singapore was incredibly poor. Most adults lacked a primary level education. Less than 7 percent of the population was in professional, technical, or managerial occupations. In 1958, 25 percent of the population lived below the poverty level. Underemployment, drug addiction, crime, gambling and prostitution were widespread. Families were large (seven children on average)
- Today Singapore is a very different place, largely due to change in how the country operates: in its national identity. It affected a cultural change in the bureaucracy. To counter the bureaucratic malaise and apathy that emerged in the colonial period, Lee Kuan Yew recruited the "best and brightest" to serve in the administration, improved salaries, and working conditions, accelerated promotions for "high flyers", reduced staffing, discouraged corruption, and worked to change the values of the civil servant
- Policies have been pragmatic and flexible. Respect stems not only from the government's integrity, but also from its success in providing affordable housing, health care, public transportation, and education. Per capita income has risen from about $1,600 in 1965 to US $33,000 in 1997. Unemployment and extreme poverty have been virtually eliminated.

Hong Kong

- It also pays its civil service well. An administrative officer makes HK $336,000. (US $43,000) (Asian Wall Street Journal, 11/4/00)
- In a survey conducted by Hong Kong's Civil Service Bureau, 70 percent of the respondents were satisfied with the civil service whom they consider efficient. It is rated in the Asian Intelligence Report published by the Political & Economic Consultancy Ltd, as the least bureaucratic place to do business out of 14 countries surveyed including Australia, the U.S. and the U.K.
- The roots of Hong Kong's civil service date to the British colonial period. It has always played a major role in governing Hong Kong. With its emphasis on political neutrality, efficiency, impersonal staffing, and dedicated service, public officials tend to think of themselves as guardians of the public welfare.
- And after reunification with China in 1997, the civil service continues to be widely regarded as a system with certain core values: integrity, political neutrality, and accountability.
- Hong Kong's civil service operates under four principles: being accountable, living within means, managing for performance, and developing a culture of service.

Ireland

- Once the poorest performing economy in Europe Ireland is now considered the best.
- Where unemployment was rampant by European standards at constantly around 19% to 22% it is now around 4.5% about the lowest in Europe.
- Ireland today is bringing in migrants form Eastern Europe because they cannot fill the vacancies in the local workforce.
- At the same time Ireland has had dramatic reductions in taxation and it has eliminated deficits.
- Per capita income in Ireland has now exceeded the European average for the first time ever.

Lessons Learned

Are there common factors linking the performance of the aforementioned countries?

The answer is yes. There are significant similarities even though each government has approached issues of governance from a different perspective.

The commonalities are as follows:

1) They have each realized that success lies in finding ways to creatively use their population to best advantage through highly successful education systems.

2) They recognize that the competitiveness of their businesses is the key to lifting per capita income so government is very conscious of not placing unnecessary restraints or costs on business.

3) They each recognize that every dollar taken for government purposes diminishes job creation and wealth creation in the economy.

4) They recognize that government needs high performance organizations. That means professionalism, ethical behavior and skilled capable people in public service.

APPENDIX II

The following is an excerpt from testimony given before Congress by Maurice McTigue in 1997

NEW ZEALAND'S REASONS FOR CHANGING ITS ACCOUNTABILITY LAWS

May I start by saying our accountability laws proved to be the most powerful tool available to the Government and the Parliament for both controlling spending and improving the quality of spending? When the finances of the New Zealand Government were in dire straits in 1984, much soul-searching was undertaken to try and establish why Government was unable to control its spending. Immediately the major problem was identified as the poor quality of information being provided to decision-makers, i.e., Parliament. From the information supplied by departments, it was impossible for Parliament to determine with any accuracy if departmental activity was achieving Government policy objectives. Parliament needed to have confidence that the money voted to programs was going to produce measurable, tangible results.

In the process of government, power ultimately resides in the hands of those who control the purse strings. However, poor quality information diminishes the power of decision-makers by depriving them of the means to make reasonable judgments on the relative worth of programs. In the same way, an inability to acquire timely information also diminishes the power of decision-makers.

HOW DID NEW ZEALAND USE ITS NEW ACCOUNTABILITY LAWS?

In my experience, the best results came from selecting a particular function of a department and commissioning an in-depth study of that activity. In the early stages of instituting accountability requirements for departments, this process was a helpful learning experience, and the lessons learned by the department could be applied elsewhere. The process included: a request for the department to report in detail on that function; a request for the Auditor General (equivalent to your Government Accountability Office) to report independently on whether that function would be likely to deliver the predicted outcomes; and commissioning a private sector

specialist (usually a large accounting firm) to do the same. The committee evaluating the department and its functions would then possess three streams of advice before making decisions or recommendations. One of the results of applying this process to our Revenue Service was a major reform and simplification of tax laws. This simplification enabled 40 percent of New Zealanders to be relieved from filing tax returns. In another example, the application of these principles to the Ministry of Works resulted in the entire Ministry being totally dismantled, and all of its activity moved to the private sector.

REVIEWING STRATEGIC PLANS

These are the kind of questions I would ask if I were reviewing a strategic plan:

Mission Statement:

- Does the mission statement accurately reflect the reason for the department's existence?
- Does this department need to exist?

Goals and Objectives:

- Does the objective have a measurable result? If not, why?
- Are these goals and objectives similar to those of other agencies?
- If so, who does the activity best and who should do it in the future?
- Is the objective already delivered in the private sector?
- If so, why is the agency doing it, and can the agency do it better?

Strategies to Achieve Goals:

- Does the plan prove that the strategy will achieve the goal?

Program Evaluation:

- Does each program have a mission statement?

- Has the program achieved its objectives in the past?
- Will it achieve its objectives in the future?
- Can someone else deliver this program better?

Management:

- Can the department properly control all of its activities?
- Can the department give a fully allocated cost for all of its activities?
- Can the department give information to Congress and to the Administration in an accurate and timely manner?
- Does the strategic plan make a commitment to achieving the above?

Final Accountability:

- Who is responsible when objectives and goals are not achieved?

It is in the area of final accountability that there may be a weakness in the current Results Act. In the New Zealand procedure, the burden of proof lies with the Department, which must establish beyond reasonable doubt that it can achieve the objectives it has set for itself. If it cannot offer such proof, it receives no funding.

Mr. PORTER. Thank you very much, Mr. McTigue. We appreciate it.

Very compelling testimony by all three. I appreciate your insights and your thoughts. But I must tell you I am disappointed, because I think there is one key element that was not addressed, and that is, of course, the political side of the reality of putting in place some of these required, if not imminent and necessary, changes.

And I know that our system of government has its share of challenges, but still the best in the world, but it creates an adversarial environment here in Washington, and it appears—and I know, Mr. Speaker, you were in office for a long time, far longer than I; Mr. Walker and Mr. McTigue—but I think that a serious challenge to us in competing in this global world with no boundaries is our own political process of the spirit of attack and spirit of taking down the other party.

There are many ideas that are floated here in Washington that become political fodder. May I suggest even a personal account as a discussion item has been used—and I use this as an example because it is alive and well today, and, again, waiting to see specifics on personal investment accounts. It has turned into a campaign on who is going to be the next President, not about what is best for seniors.

So I guess as I have three of the best and the brightest here today, I want to take a moment, as we look at your ideas and suggestions, I think many of which could take us into this next century. But as we weave through the political process, what steps do you see that we can bring both political parties together and do what is actually best for the country, not what is best for a political party?

Mr. Speaker.

Mr. GINGRICH. I think that is a very realistic starting point for this discussion, if we can assume that we have crossed the threshold of agreeing that we need very real change. I will give you just a couple of specific insights from my own career.

The first thing I would recommend to the House Republican majority is to find 5 or 10 bills the Democrats have introduced that move us in the direction you are describing and pass them. You will change the whole tone of the building. And I remember when Dick Armey, who was not on the Armed Services Committee, had the idea for a base closing commission, went out and advocated it as a minority member. Republicans were in the minority, and had been, at that point, for about 34 years.

And Armey talked to enough people long enough that Les Aspen decided that he had better move it as a Democratic idea because it was too popular to stop. And so Dick Armey, never having served on the Armed Services Committee, passed one of the most important pieces of reform legislation for the national defense system.

I remember when Jack Kemp and Bill Roth went around talking about tax cuts, made it popular enough in the country that a Democratic Congress passed it in 1981.

So I start with the idea there are a lot of people in the Democratic caucus who have a very passionate interest in government working. They come out of a philosophy that believes in govern-

ment; they represent, often, constituencies that desperately need government. And I would look around and find the 5 or 10 best small ideas and pass them as freestanding bills so that, all of a sudden, people say, gee, we are really working together.

Second, what you hold hearings on really matters. And if you bring in people who think positively—I will give you a specific example. Mayor Giuliani had a remarkable system for fighting crime and made New York City dramatically safer and dramatically more prosperous. That system relied very heavily on a matrix-based organization; it has been studied widely.

I would invite Mayor Giuliani and the people who have implemented that system and the people who have studied that system to come down and hold three or four hearings in a row on what would the Federal Government be like if we brought that model and we applied it around the Federal Government, and what would we have to change to do it? I think it is something which many New Yorkers of both parties would agree made the city a dramatically better city. So I would try to be positive about the big ideas.

Third, there are things that don't have much political resistance. We define the inspector generals' job so that half of their time should be highlighting successes and half of their time should be finding fault, and you would, overnight, change the psychology of the inspector generals. Because the goals shouldn't be "gotcha." The goal shouldn't be to look for petty excuses to blame somebody. The goal should be, I am inspecting this department to get it to be the most productive, most effective deliverer of services possible. That change I suspect you could do on a bipartisan basis.

Last, let me just say, in answer to this question, define what success is for each department and then hold hearings on those aspects that are successful. What are the five best achievements at HUD this year? What are the three best achievements at the Department of Labor? There is no reward in the American Government today for serving the country, taking a risk, being entrepreneurial.

And, frankly, you might consider allowing inside the Civil Service some limited number of promotions for achievement outside everything else. Yes, you are going to run a risk of favoritism and all that stuff, but if it could be defined as actually relating to an achievement so we began to reward risk-taking among Civil Servants, it might pay us a huge dividend in the long run.

Those are just specifics that I think are all doable, would all be positive, and would all have bipartisan support if they were designed right.

Mr. PORTER. Mr. Walker, just address that, please.

Mr. WALKER. Well, first, I share a number of those thoughts. One, for example, is the fact that when you are talking about trying to look at government, it is not just what is wrong with government, it is what is right with government. There are a lot of things that government does that it does well, and they do not get highlighted enough.

So I think it is important to be able to look not only at the roles of the inspectors general, but also to be able to look at oversight and to recognize that you can conduct oversight hearings where you cannot just talk about the negative; you can talk about the

positive. Who is doing it well? Who is doing it right? How can you share that? In addition to who has a problem? What is the problem? How are we going to solve the problem? And how can we make progress?

Let me turn just for a second to the executive branch, because the Speaker spoke primarily about the legislative branch, although I totally agree that changes are necessary in the legislative branch.

The United States does not have a strategic plan. The largest, the most important, the most complex entity on the face of the Earth does not have a strategic plan. It does not have well defined goals and outcomes. We spend $2½ trillion a year, hundreds of billions of dollars in tax preferences, issue thousands of pages of regulations, and we have no plan. You are going nowhere fast without a plan.

Second, the United States does not have key safety, security, social, environmental, etc. indicators to assess the Nation's position and progress over time and in relation to other nations. These are outcome-based indicators. The United States does not have clearly defined goals and objectives about what we are trying to achieve on an outcome basis and an integrated basis based upon current and expected resource levels.

As a result, in the absence of having those basic things, it is no wonder that people think, well, if we want to solve a problem, let us throw more money at it; let us put more people on it; let us give another tax preference. Those are simplistic and flawed analyses.

We need to be able to have a plan; figure out what we are trying to accomplish; come up with key outcome-based indicators; take a more strategic and innovated approach; align the executive branch and the legislative branch based upon today and tomorrow; be able to focus on allocating resources to achieve the most positive results within available resource levels. And we need to make sure that there are adequate incentives for people to do the right thing, transparency to provide reasonable assurance they will do the right thing because somebody is looking, and appropriate accountability if they do the wrong thing, as well as praise if they do the right thing. These are basic. These are basic to any organization, whether you are in the public sector, private sector, not-for-profit sector. And we don't have it.

The last thing I would say is I come back to the legislative branch. The authorization process, the appropriations process, the oversight process. When are authorizing or reauthorizing, what are you trying to accomplish? How do you measure success? It has to be integrally in that. In the appropriations process, we can no longer assume that the base of government is OK. We can no longer spend tremendous amount of time and energies that we are going to plus this up a little bit or cut this back a little bit. We have to look at the base—what is working; what is not working; what makes sense for the 21st century—because the base is unsustainable and is not results-oriented.

And, in the oversight process, as I said, we have to recognize that there has to be much more oversight. But it doesn't all have to be negative. In fact, it is important that it be balanced. Because, after all, there are some things that government does that the private sector either cannot, will not, or should not do. So it is critically

important we make sure we do it right and we celebrate successes when we do.

Mr. PORTER. Thank you, Mr. Walker.

Mr. McTigue, we will come back to you in a second.

Mr. Davis, do you have any questions?

Mr. DAVIS OF ILLINOIS. Thank you very much, Mr. Chairman.

And again I thank the witnesses.

Mr. Speaker, several of your principles for entrepreneurial public management are centered around information technology, the use of sophisticated equipment and wireless communication devices and all. If I remember, in 1995, you led the effort to eliminate the Office of Technology Assessment. What has occurred between then and now in terms of that would shift, perhaps, your thinking from where it may have been at that point to where it is today?

Mr. GINGRICH. Well, in 1995 I also testified at the Ways and Means Committee that we should consider giving every second grader a laptop, because I wanted to end disparities in access to information technology. So I don't know that my views have changed much. I wrote a book on the importance of scientific and technology change in 1984 called Window of Opportunity, and I have long been a believer that technology is a significant part of our future and that science—in fact, I helped double the NIH budget and, in retrospect, wish I had tripled the National Science Foundation budget because I think science is such a key part of our future.

Those of us who were very pro-science who opposed the Office of Technology Assessment frankly thought it was an obsolete office that did an inadequate job. It is a little bit like the rise of Google. It is amazing how much information you have at your fingertips now if you simply go online and pull up Google and type in a query.

By the way, I also helped, when I became speaker, the day after I was sworn in, we launched the Thomas System online so that the entire world can access the U.S. Congress for free. And a few weeks after that I did the first effort to raise money for the National Library of the American People, which is the first digital library on a large scale that exists, and it now has over 5 million documents online, including Scott Joplin's writings and much of Martin Luther King, Jr.'s work, so that people all over the world and school children all over the world can access it.

So I do believe in technology, and always have. That was a very specific question about a very specific office that I frankly thought did not do a very good job.

Mr. DAVIS OF ILLINOIS. Do you think that there is any possibility that we might move what I will call overuse of technology? When I think of technology and I think of the implications, and when I think of globalization, I also think of unemployment and I think of the lack of opportunities in some instances for people to keep up and be able to be employed. Is it possible that we might reach a point where we can do so much, where many of the people really won't be needed to accomplish what has to get done?

Mr. GINGRICH. If that came to me, my initial answer would be no, but I would describe it slightly differently. You know, people have thought, starting with the Greek mythology of Prometheus being punished for having discovered fire, there is a long tradition

of let us not do the next technological cycle. The wheel was good enough for me and the ox cart is good enough for me. Why are you bringing in this newfangled thing?

But I would put it a little differently, and here is an example where I think government could rethink itself. I would tie unemployment compensation to re-education. Because what technological change does mean is that we are not in an industrial age cycle where you get laid off for 4 months, go back to the very same job. The average person is going to be in a different job, in a different industry, doing a different thing.

So I would make unemployment compensation directly a component of also being able to go out and to get better educated so that if you are unemployed and you do have some free time. And I would look at places like the University of Phoenix, which is the largest online education system in the world. And I would try to integrate so that every citizen in the United States has a continuing opportunity to improve their marketability, their capability, and their productivity, which, I think, is frankly going to be a key to our being able to compete effectively with China and India.

So I am very much for reinvesting in the human capital of the American people in order that they can keep up with and be employed in the technological changes that we are going to live through.

Mr. DAVIS OF ILLINOIS. You mentioned Phoenix. I happened to do the commencement address for Kaplan on this past Saturday, which was a great commencement and a great graduation.

Mr. Walker, could I ask you, you mentioned in your comment that in addition to looking at what might be wrong with government, let us also take a look at what is right with government. What are some of those "right with government" things that we could look at?

Mr. WALKER. Well, I think the fact of the matter is there are certain functions that are performed by government that you don't want to privatize, you know, that need to be done by government. Therefore, we have to do it well. I think the other thing we have to recognize is that there are certain agencies that are very much trying to do what all of us are talking about: try to be more results-oriented, try to be more citizen-centered, try to empower their employees more, and try to form better partnerships.

I think more needs to be done to highlight those that are making progress in areas where we want them to make progress. There are many agencies that have done positive things. FEMA has done positive things there. The IRS even, believe it or not, has done a number of positive things with regard to trying to transform themselves. We might be another example.

So part of it is just the fact that let us not just look for what is wrong; let us look for some of the things that are going well and figure out how we can highlight that and spread it across the Government.

Mr. DAVIS OF ILLINOIS. I will yield back. My time is up.

Mr. PORTER. Chairman Davis.

Mr. DAVIS OF VIRGINIA. You know, we have a hard time here. Ideas are a very, very important part, but we have a hard time getting the Government to change anything. For example, Telework.

A lot of the companies out in my district, their employees aren't hanging around the office all day; they are out visiting customers, some of them are working at home, as long as they have their laptops and whatever else they need to be in communication. These are not just quality of life issues, they are efficiency issues in some cases. But we have a hard time getting agencies to respond to that.

Competitive sourcing. It seems to me you can't have government re-innovation without competitive sourcing. Yet, the House struck down our ability to do that in an amendment a couple weeks ago. The Buy America Act is a huge impediment in terms of efficiencies and being able to get the best goods and services for our dollar. Yet, members go crazy over those kind of things.

But I think the testimony here is excellent. You need to reward risk. You need to reward innovation. Right now we reward people for not taking chances. It is the opposite of what it ought to be.

Let me ask each of you. I will start with Speaker Gingrich. If you could give two or three of the most single practical things that Congress could undertake to pass legislatively, could you give a priority? Putting a comprehensive package together in this environment just becomes so difficult.

Mr. GINGRICH. Well, let me say, first of all, I don't want to disappoint my good friend, but this process has always been a mess. Always. I mean, it was a mess for George Washington. And it was designed to be a mess. The founding fathers wanted to guarantee we wouldn't become a dictatorship, so they designed a machine so inefficient that no dictator could force it to work. And they succeeded so well that we can barely get it to work voluntarily. It was by design. So I start with that.

There are three things you can do over and over again that make a difference. And I say this having served 16 years in the minority and tried to get things done when I belonged to the minority party, and for a brief period had served twice with a Democratic President and a Democratic Congress. The first thing you do is you talk about it, you hold hearings on it, you do special orders on it. You get the language so people get used to it.

Mr. DAVIS OF VIRGINIA. You stay on message, in other words.

Mr. GINGRICH. It is really important, because eventually people change how they measure themselves. We change what we tolerate. We have seen it happen over and over for several hundred years now.

So I think to say that—and notice I didn't come here today to be anti-government. I came here today to say we have a vested interest as a people in government that works, in a government that is effective. We can argue over which things it should do. But once we make the decision to do it, it should do it to the best possible ability and it should match institutions like FedEx and UPS in their capability.

By the way, there is a page 1 story in the paper today that our inability to use information technology in health care in the area of hospital-induced illnesses alone is killing an estimated 100 Americans a day. Now, that should be an area where we should be able to come together to say that, on a bipartisan basis, liberal and conservative, saving 100 lives a day would be a good thing.

And certainly if you look at something like airline crashes—when I used to serve as ranking member, and before that as minority member on the Aviation Subcommittee—there wasn't a Democratic airline safety proposal and a Republican airline safety proposal; it was an idea that we both flew in airplanes and we would like to get there safely. So we somehow came together. I think you start with language.

The second thing you do—I want to go back to what I said earlier because I think it is so important. And this, again, may surprise some of my friends because I have been a fairly aggressive partisan much of my life. It is really important to scan every bill introduced by Democrats and find 5 or 6 or 10 bills that move us a step in the right direction, and bring them up in a bipartisan way and begin to create a notion that even if they are baby steps, if they are steps in the right direction, they can make an impact.

And then last, to go back to your key point, I don't think you can pass an omnibus bill. I think it is too complicated. But you can target specific things. And I will give you two relatively narrow examples I mentioned here today.

The first is to really work on a bill to redefine the job of the inspector general so that the inspector general is not just a negative, fault-finding, law enforcement function; it is a productivity, quality, effectiveness, improving function. It would dramatically change the culture of many of the departments.

And the second one is to look at something very small that is of importance to several members of this panel, and that is the National Zoo. Here is a great symbolic institution. And with the right public-private partnership, which ought to be doable on a bipartisan basis, I believe you could have a truly national quality institution with two great parks, one modeled on San Diego. And it would be a symbol of the willingness to start doing new things in a new way, designed to achieve positive results.

Those are small steps, but I think they are important.

Mr. DAVIS OF VIRGINIA. Mr. Walker.

Mr. WALKER. Three things. I think the Federal Government has to have a strategic plan and I think OMB should be tasked to do it.

No. 2, I think we need to develop a public-private partnership to develop a set of key national outcome-based indicators—safety, security, social, economic, environmental, etc.—in order to guide our way on strategic planning, enhance performance accountability reporting, facilitate the review of the base of the Federal Government, and to help make authorization, appropriation, and oversight decisions and engage in related activities. Other countries have it. There is no reason we can't and we shouldn't have it.

No. 3, I do agree that you need to look at the accountability community and make it a performance and accountability community. What you are trying to do is to maximize performance and assure accountability at the same point in time. But we can't forget about the first; we want to maximize performance.

And the last thing I would say for the legislative branch is think about how these concepts apply to the authorization, the appropriation, and the oversight process, especially oversight—I think you can start there first—and then also reauthorizations and new au-

thorizations, and lead by example. Make sure that you are trying to take a balanced approach. Make sure that you are trying to focus on what outcomes are we trying to achieve and how can we provide guidance to these agencies to help them understand this is what we expect to achieve on an outcome basis, this is how we are going to measure success, this is what we expect you to gear your energies and efforts to, and we are going to hold you accountable. But, by the way, we are going to provide you reasonable flexibility to get your job done, and as long as you can deliver results and not abuse authority, you are fine.

Mr. DAVIS OF VIRGINIA. Mr. McTigue.

Mr. MCTIGUE. Congressman Davis, I would do it with one measure. That one measure would require that every appropriation have linked to it a specific progress toward an outcome. So with the SEC you would seek an improvement in the behavior in the market by 10 percent per annum; on hunger you would expect a decrease in hunger by 10 percent per annum; on homelessness by 10 percent per annum; and so on.

If you linked every appropriation to the progress you expected to make on an outcome, all of the other things would fall in place because they would have to. It is in the best interest of the elected Members of Congress and it is in the best interest of the organizations that deliver those goods and services. It would force you to buy goods and services from the best provider, whether that provider was a private sector provider, whether it was a voluntary sector provider, or whether it was a public sector provider. But if that was there, then there is a clear target to shot for every year.

The third thing is, if you did that, I think that the reputation of Congress itself among the general public would improve immediately.

Thank you.

Mr. DAVIS OF VIRGINIA. Thank you.

Mr. PORTER. Congresswoman, do you have any questions?

Mr. GINGRICH. Can I just add one quick thing to what Chairman Davis asked? I think if you were to encourage every Member of Congress to create an entrepreneurial public management working group back home and bring together four groups of people: people in the private sector who are actually doing it, that is, who have productivity, who have quality, who are using technology; people in local government who you have pride in and who are respected.

I think, for example, of the mayor of Chicago and Mayor Giuliani. Mayor Daley and Mayor Giuliani were stunningly effective local officials, and to have them come in and say here are the nine things you could do to make the Federal Government better would, I think, be powerful.

The third is the same thing with State officials, and the fourth is with Federal officials. We don't honor the person who spends 30 years of their life serving the American people by asking their opinion. And yet, I will bet you—this is basic demming, this is a basic approach to quality.

If you went out, as you know, in your district and you wandered across the district and just sat around and said to local government employees, so what are three things we could do that would allow you to serve the country more effectively, at the end of a couple

months of that kind of looking at home—and if you just encouraged this to be a standing long-term relationship, that every member build an entrepreneurial public management working group at home—you would begin to get ideas flooding back into the Congress. You would have a whole new tone of telling people things. And that then makes it easier to pass things here, because now you have noise back home saying it is a good thing to do.

Mr. PORTER. Thank you.

Congresswoman.

Ms. NORTON. I am going to, I guess, start with Speaker Gingrich, since he conceptualizes much of what the three of you say, and then go across the board.

I want to say, Mr. Walker, you know, I understand limitations of a graph, but the expiration of the tax cuts, the tax cuts which are footnoted here and the spending here, this is the kind of thing that gets people's hackles up, because obviously it is noted here. It is noted here, but since the tax cuts are in a footnote, what one really sees across here is a spending that is the hardest to deal with, that does not have speak to the stuff Congress has kind of piled on new, the stuff that was already there cumulatively.

And it is much harder to deal with it when that is what you put in people's face, because then you just get the House divided with people saying, well, you know, if you hadn't done the tax cuts in the first place, and others saying if you spend less. And, frankly, that is where we are now, stuck on stupid.

I want to start where Mr. Gingrich starts. His model starts very rationally, then when we get to his ideas they are eclectic. Some of them are short-term; some of them are revolutionary and long-term. But he starts, it seems to me, with a corporate model, with, for that matter, the model of any large enterprise, what he calls the vision of success, the so-called what in the hell are you trying to do question.

And everybody starts that way, he says, and I think you all would agree, except government, which just says here are some things to do, let us get to doing them. I profoundly accept that because my own experience reinforces it so much.

My experience in government was as chair of the Equal Employment Opportunity Commission, which gave me an opportunity that few people have in government. The agency was on its knees, it was about a dozen years after it was set up in the first place, overcome with backlog, and the President said get in there and deal with it.

So it was possible for me to step back and say what do I want to do and I am going to do it. It was so bad that people had to let me do it so that we got the backlog down from something that would take a case 4 years to where it took 4 months, and did something that was tough, where people initially said uh-oh, that is to say, went to a model of settling cases, rather than the litigation model that came out of the civil rights movement that had been so successful, you know, sue it. It has bothered you, it is bad, so go at it with a lawsuit.

And we were able to show that you got far more for people who brought cases by settling them early while the evidence was young

and fresh, than by going for years when the evidence and, for that matter, the witnesses had vanished.

We organized not only the structure—that is about what we are about doing now in the Homeland Security Committee with homeland security—but reorganized work so that investigators, instead of going after pieces of paper, focused on bringing the parties together to seeing if there was kind of agreement between the parties that could be reached.

The civil rights groups were the most doubtful. But because I came out of the movement, they gave me some slack. And, in the long run, when they saw that people got more than previously, the system was accepted.

Most government managers don't find themselves in a situation where the thing is falling apart, so somebody has to say get in there and do it. But I endorse this notion, and I think we could do that even for agencies that are at this moment. What is the vision of success, for example, as the Speaker says. I want to hold you—as Mr. McTigue says—hold you accountable because you have to lay out at the beginning what it is you are trying to achieve, or the President indicates what he is trying to achieve.

By the way, the EEOC, the people who were taking it, who were being slammed, were the front line people who processed the cases. Obviously, the management of the agency was responsible. The very same people who were slammed because the cases took 4 years were the people who got them done in 4 months because they had a new system. So it seems to me that on down the line, including the unions, including the workers, are going to be much more receptive if they see that management is being held accountable in the same way the CEOs are held accountable, and they, in fact, make people want to do the work by the systems they put in place.

I looked closely at some of the things you want people to be able to do in the Government, Speaker Gingrich, because I agree with you. People who believe in government as I do really ought to be up front reforming government. Many of my Republican colleagues come straight out and say government just shouldn't be doing most of what they do. I don't think we have any right, therefore, to criticize them when they go at government. It seems to me we ought to be going much more strongly at problems in government if we believe that people benefit from government.

Once you get down into the Civil Service system is where you get people dividing out. We have a Civil Service system for a reason. We are not dumb. It is because it is the Government. So that if you were to be fired from one of the three Fortune 500 companies, on whose board I served before I came to Congress, you did not have due process, fifth amendment, fourteenth amendment. That happens to be part of government employment. It is very different from employment in the private sector. And you have to be smart enough to think through that as well as think through how to make it more efficient.

Some of the things you have in your paper, Speaker Gingrich, it seems to me may sound strange, but I think could be done, and some of them may be done now. For example, you say allowing people to move in and out of government service. Well, we are crying and screaming about scientists who obviously can make far more

money. Increasingly, we are not going to be able to attract the best and the brightest to the government service as we could before, because there are so many options out there.

I wonder about moving in and out of government as a way to deal with some of that. Doctors, many, many people now who, it seems to me, will be able to do better in the private sector. Moving from department to department. Some of that obviously still goes on here.

The reason I break this up this way, Speaker Gingrich, is in spite of your revolutionary approach to government, you and I know that these folks are more likely to take bits and pieces of it and move it, than they are to throw the whole thing up and begin again. You say here, for example, to buildup seniority as you move in and out without continuous service, as long as experience and knowledge has risen. That is interesting.

I am sure that people would first stop and think about people who spent all their time in government. But I just think these are examples of ideas, and I want to ask you, building upon this, if I could just pose my question around an existing system.

Mr. PORTER. And we are going to have another round, also.

Ms. NORTON. But this was the question I was leading up to, if I could just get this. And then I will forgo the round.

Mr. PORTER. OK.

Ms. NORTON. It is the so-called A–76 process, as an example of government trying to move forward in a different way. Very controversial, but it is a process by which civil servants compete with the private sector before the work is outsourced. Now, I am told that——

Mr. PORTER. Maybe what we could do is have them answer that question in the second round. Would that be OK, Congresswoman?

Ms. NORTON. But I haven't asked it yet.

Mr. PORTER. Oh.

Ms. NORTON. I am told that 80 to 90 percent of the time Federal workers win, that sometimes what happens is they have to downsize in order to compete with the private sector because the private sector often doesn't have health care. So they do this by attrition. It is very controversial.

But they have been willing to do this to keep the work in-house, with all of the limitations involved, which is they compete with people who don't have the same benefits and therefore are forced to make themselves look like the private sector, or else they would end up, too, without health care for some workers and the like.

Some of you may know something. I think Mr. Walker and Mr. Gingrich may know something about the A–76 process.

Mr. DAVIS OF VIRGINIA. Would the gentlelady yield on that? I don't think any government organizations had to reduce health care benefits. They are all under FEHBP. And my understanding is that there are companies with retired military officers and the like that elect not to reward their people with health care benefits because most of their employees have it and they put them in other areas. That is why these regulations are ridiculous. But I am not aware of any government organization that has had to pare down their health care benefits to compete on competitive sourcing.

Ms. NORTON. Mr. Chairman, if I could indicate I didn't say that is what in fact happens as a result of the competition. You are perfectly right on that. But that in order to make sure that the benefits are in place, what happens is, although they win the competition most of the time, they downsize in order to make sure that they are competitive with the private sector.

Now, I am not against the A–76 process. It is often seen by some people as unfair because that is what you have to do, you have to match yourself up with a system that has fewer benefits. It is one of the compromises, frankly, that I would like to ask you about, because it comes out of trying to take something from the private sector, make employees compete. They do well. It has some real controversy attached to it. I wonder if it is the kind of model that you think could be built upon.

Mr. PORTER. Thank you. And what we will do is we will come back to answer that question, if you don't mind. We will have another opportunity and we will come back to that in just a moment.

Congressman Issa.

Mr. ISSA. Thank you, Mr. Chairman.

Thank you all for being here today. Actually, what I will do is I will piggyback the gentlelady's question so that, realistically, you can answer both in one capsule, I believe.

Briefly, I had the honor, before I came to Congress, of chairing the IT outsourcing for the county of San Diego. And as I think the Speaker knows, the county of San Diego went through a whole process of top-to-bottom evaluating and, in most cases, bidding out any number of services.

I will say that our history was not 80 percent, but we did have times in which, in the case of information technology, was outsourced. It was actually outsourced because, after evaluating it, the in-house people said we cannot equal what we need to equal at any price, even in a county as large as San Diego. And those personnel were transferred to the private sector as part of the guaranty, and all of their benefits were equaled in the private sector as part of the contract. The only thing we didn't guaranty them is a job for life. They obviously had to continue performing after a lock-in period.

However, as someone who observed in San Diego, we dramatically reduced, for example, the cost of operating the county's motor pool, a very large fleet of vehicles, and with no reduction in service or in pay. So I am a fan of trying to bring entrepreneurial process.

But, very briefly, the two questions that I have is, one, is or how does Congress empower its agencies to have the power to be entrepreneurial, which by definition means freedom to fail? Because in the private sector we fail, and we fail miserably. And sometimes heads roll and sometimes they don't, but we get up the next day and the company gets up to the base. We don't have the bureaucratic mentality that we generally have in government that all programs are 100 percent success and no programs get canceled, and so on.

But the second one, which is the predictability of money. We have a followup hearing, Hollis Eden, a company from my district, who is grappling with the problem. We went out on the biosheild and we essentially said be entrepreneurs, develop fixes for radi-

ation and for other biological warfare. Develop these and we will buy them. Well, they have been developed. This particular one for radiation poisoning is nearly approved by the FDA. And we are simply refusing to fund purchasing.

So if you are going to ask the private sector to take risk at their own expense, develop a solution, how do you, how do we, since the you is we, provide some level of predictability that, when the entrepreneur takes the risk, they are not taking two risks, one that they may not win a contract, but how about the one where we say there is going to be a contract and then ultimately there isn't or it is delayed by so many years as to make it fruitless?

Those are sort of with the gentlelady's first, but then those two series of questions.

Mr. GINGRICH. Let me yield first to David Walker, because he actually chaired a project on A–76. I think that would be a useful place to start.

Mr. WALKER. Ms. Norton, I chaired something called the Commercial Activities Panel—I think it was about 3 years ago now—at the request of Congress. It was a statutory mandate. I would comment to you and be happy to provide to your staff, if you would like, a copy of that report. That report includes the heads of the two major unions in the Federal Government, as well as officials in the Government and the private sector. We agreed unanimously on 10 principles that should govern any type of competition process. We had super-majority agreement on a set of recommendations, but not total agreement on those set of recommendations.

I think one of the key elements that came out of that effort was A–76 is only focused on certain functions and activities. One of the things that we are talking about here is how can you create high-performing organizations throughout the Federal Government, whether or not they will ever be subject to an A–76 competition.

In many cases what ends up happening is there are certain core functions and activities that should stay in Government. A–76 theoretically only deals with those functions and activities where they are not core to the Federal Government; they could be done by the Government or the private sector, they are not inherent governmental needs, if you will.

My point is what are we doing to try to make sure that for all of government—not just ones that might be subject to A–76—that we are leveraging technology, we are streamlining our processes, we are minimizing our management layers, we are empowering our employees and getting the ideas of employees in order to do things more economically, efficiently, and effectively. I think a lot more has to be done there. And I think that is what this hearing is all about, I would suggest.

Mr. GINGRICH. Let me give you a couple of examples. Let me say, first of all, that if you decide to hold more hearings in this direction, one of the people I would invite in, if I were you, is Steve Goldsmith, the former mayor of Indianapolis, who is a very innovative person. I think if you said to him, give me 15 specific examples, he would come in armed and really able to give you very good specific examples of doable things and real success stories.

Two, part of what has to happen, Mr. Issa, is to develop lock-in provisions in these bills. If you notice, when we start to build an

aircraft carrier, which is a multi-year project, we manage to somehow write the legislation so that the shipyard in Norfolk knows it will actually finish it; and there is a very substantial penalty clause if we don't. So part of that is a contracting problem. The Congress has to be honest and up-front about how it would approach these things. And I think that is a challenge. Again, I think at least half the problems we are describing are in the legislative branch and can't be fixed in the executive branch alone.

Third, I would like to build on something that Mr. McTigue said. I think if the Appropriations Committee, in its annual process, required each department and agency, as a starting point, to list the 10 percent least effective or least useful projects in the agency—just for review purposes—that would change the dialog of management dramatically. And if they would also list the 10 percent most effective, you begin to get a whole different sense of hearings and people would have a different sense coming in.

One last thing. And I don't quite know how to say this as quickly as we should, but I will dive in. Imagine your own personal life with no automatic teller machine, no cell phone, no e-ticketing. Just go down the list of whatever is now normal. That is government. So a specific example that you could begin to look at for the Federal Government tomorrow morning: Travelocity and Expedia and other systems allow you to buy airline tickets in a highly competitive environment. I used to represent the Atlanta Airport. Per passenger mile in constant dollars, tickets have dropped from 23 cents a passenger mile in 1978 to 12 cents today on average.

Your city, Mr. Porter, has been one of the great recipients of inexpensive airfare, since it now has, I think, 40 million visitors a year, or something like that. So in that setting, in the Federal Government, I know of one department, as a matter of fact, in which you are not allowed to buy business class. Now, it turns out that there are a number of places where you could actually buy business class cheaper than you can buy a regular first class ticket if you are looking for a special deal.

There are also a number of places where I could buy the government priced ticket, which in the model of 20 years ago was often the least expensive ticket because of bulk purchasing, or I could buy this afternoon's immediately available least expensive ticket and save 60 percent of the cost.

There are no places I know of in the Federal Government where we incentivize people to save the taxpayer money. But if we were to say, as an example, you can benchmark online the standard price the Government is going to pay this morning. If you can get a better ticket for the same or lower amount, you are allowed to do so. And if you can get it for a substantially lower amount, you can even consider sharing. If somebody says I will fly the night before, I will take the redeye, and, by the way, the taxpayer and I will share the money, it is a totally different way of thinking about the whole process.

And I do want to say, just in closing, I agree totally with one of the points that was made by Mrs. Norton, which is you have a much higher fiduciary obligation to avoid corruption and to avoid theft and to avoid all the kinds of things that we know, prior to the Civil Service laws, were real.

So you are not a private company. This is in fact the public's money and the public trust, and I do think you have to have some extra special provisions of transparency and accountability from that standpoint. But I do think you could respond to the emerging modern world and save a substantial amount of money and actually be more effective.

Mr. ISSA. Mr. Chairman, if I could just make one quick followup.

Speaker Gingrich, I must disagree with you, respectfully. There is an exception in Government, and that is that when you became speaker and you switched us over to having a fixed budget that was fungible, that could be spent anywhere, it does incentivize my office and all the members' offices to look for government, non-government cheaper tickets so that we can do our jobs, and those funds now are movable to other uses. So with rare exception you would be right, but there was notable exception that you might remember fondly.

Mr. DAVIS OF VIRGINIA [presiding]. Mr. Walker.

Mr. WALKER. Two things, if I can, real quick. No. 1, Steve Goldsmith was a member of the Commercial Activities Panel. He is a former mayor of Indianapolis, now at Harvard. Second, as you probably recall, at our request, as well as the Department of Defense, meaning GAO as well as the Department of Defense, the Congress passed, several years ago, a bill that gives Civil Service employees or Federal employees the right to keep frequent flier miles. There are some agencies that have now set up gain-sharing programs for the purpose to try to have a win-win situation, where if people use their frequent flier miles, if it saves the taxpayers money, then that is shared between the taxpayers and the individuals.

So there are ways to do it. We need to look for more.

Mr. MCTIGUE. Mr. Chairman, can I just make a couple of comments as well?

Mr. DAVIS OF VIRGINIA. Sure.

Mr. MCTIGUE. The comment was made by you, Mr. Chairman, right at the very beginning, about it is easy to measure progress in the private sector because there is a well known bottom line; it is what is the return on capital or it is what is the profit or it is what is the dividend. But there is a bottom line in the government sector as well, and we often ignore that, and the bottom line is the public benefit. So what is the public benefit that accrued from spending resources on this particular activity? And until recently we have been bad at measuring that.

So, for example, in the case of Delegate Norton at the EEOC, the public benefit at the end of the year is by how much has discrimination been diminished, and looking for ways in which you can continually diminish discrimination.

Delegate Norton, there was something else that you mentioned that I want to pick up, but it is from my experience in New Zealand, not from my experience in the United States. As we made it possible for people in Civil Service to move readily from Civil Service to the private sector and back again, I had people working for me from time to time who were into their third iteration of doing that. It was hugely beneficial to both because people were going

into the private sector, getting best practice, and coming back into the public sector and bringing that best practice with them.

But at the same time we also found, after a short period of time, that the private sector realized how good some of the people were that we had and we had aggressive headhunting of people in the public sector. And that was good as well, because it started to give them a sense of their own self worth.

The third thing that I wanted to say was this, and that is that unless you have a clear focus on what the public benefit is that you are trying to achieve, then you are not going to get the efficiencies that you want. One of the decisions that the Government of New Zealand made was that it was the responsibility of every executive working in government departments to buy goods and services from the best provider; that they needed to define best.

Best does not necessarily mean cheapest. And what we saw frequently was that would change from public sector to voluntary sector to public sector to private sector. But as long as the competition was open and fair, then the beneficiary was the public benefit; we were getting more goods and services.

And the last comment, Mr. Chairman, was this, that where government agencies were able to get efficiencies from what they were doing, we allowed the money to stay inside that agency to allow them to do more of their public good; it didn't have to be returned to the treasury. What we found then was that many agencies, at the end of the year, finished up with surpluses instead of deficits, and there was no spending splurge at the end of the year on things of little value.

Mr. DAVIS OF VIRGINIA. Thank you very much.

We have about 15 minutes left. What I want to try to do is just do 5 minutes apiece, if we can try to hold that strictly. I will start, and then Mr. Davis and then Ms. Norton. Then at 4 p.m., I am going to gavel it shut so that our speakers can leave.

A couple of comments. One is my experience in running the government out in Fairfax was I went to my managers, and some of the best ideas came from people that have been there for years but nobody ever listened to them. They know how to save money if you will just empower them sometime. The guy that is at the window everyday talking to people, they know what is right and what is wrong. And we got some wonderful suggestions.

When I went to my senior managers and asked them to save money, they came up with a little bit of savings. But when I went to them and said, you know, I am going to give you a percent back and you are going to have wide discretion as to how to spend your savings, they came up with huge savings. You empower them, you give them the right incentives, and it is funny what they can come up with.

In talking about outsourcing, I represent 54,000 Federal employees. I think they are the greatest asset the Government has. And I think it is not their fault in many cases; we misuse them. We don't incentivize them the right way. We don't empower them the right way. We don't always pay them the right way. These are investments. On the other hand, if they find out that they can't compete with the private sector and the private sector can do it for

less, we exist for the taxpayers, at the end of the day, to get the best deal for them.

But one of the problems we have is we have a Civil Service that basically is a one-size fits all standard. We are getting a lot of stuff being outsourced today because we don't have a cadre of high technology software people in Government because we won't pay them appropriately because the current schedules don't even speak to these qualifications. And you try to change it and some of the existing Government employee groups are the first ones to resist it. And then they complain when you have to outsource to get this stuff done.

So I just wonder. I personally favor more bonuses and those kind of incentives, because I think they work. If a procurement officer can bring a large contract in below cost and on time, we lose tens of billions of dollars with contract overruns every year with improper oversight. Training has to be something that we need to spend more money on. Yet, that is the first thing that is cut with the budgets. Just some minor changes in those ways I think could help.

Before I ask for a comment, I would just say Government's tendency when they have to lose weight is they chop off fingers and toes. You remember we would go agonizing votes to save a little bit of money on something symbolic, where, in truth, fat is layered throughout Government in the way we do business. And if we just take a look at the way we are doing business and change some of those models, I think there is a lot more savings.

And I will just open up and see if there is any comment on that.

Mr. GINGRICH. Well, you said a lot of different things, and I agree with almost all of them. You are exactly right, and that is part of what I meant about having an entrepreneurial public management working group back home. I think if the average member went home and went around and talked to the actual deliverer of goods and services in the Federal Government in their district, they would be startled how many people know better.

I think, second, you kind of have also a challenge to define what are we trying to accomplish. And here I think Mr. McTigue put his finger on something very, very important. One of the projects we are working on is to review education bureaucracy from the standpoint that if I could find, out of our current $60 billion Federal education budget, a way to get 40 percent more salary for teachers, but also have as part of that contract a merit relationship so that teachers really were delivering for that 40 percent pay raise, I think you would have a lot better education system than all the layers.

So I think it is partly a question of what system are we asking to do this and partly a question of who actually knows it and how do you incentivize them to come in.

Last, I would be very curious if you tried to offer that opportunity in a variety of places. Obviously, again, this is why I would recommend, on change, it is fundamental that you start with a bipartisan effort.

Two last things. Take any of these handful of agencies and try to figure out how can we take your Fairfax model and say to a cabinet secretary or the head of some agency, if you can really find X

amount of savings, you get to keep 10 percent of it as a discretionary fund, a portable, accountable, publicly spent fund, you would begin to get real control. I think you would find staggering levels of savings.

And the last thing, which goes back to something Mrs. Norton said, I am very worried about how we are approaching the National Institutes of Health. I am very worried that a grotesque overreaction to a handful of people is going to make mediocre an institution like that. And I think designing a brand new science technology pay scale and setting up appropriate ethics relationships that ought to largely be a function of transparency, not of limitation.

But if you look at the cycle we went through recently, where people in Congress were proposing that secretaries at NIH wouldn't be able to hold—I think the NIH bureaucracy proposed rules which would have meant that a secretary couldn't have invested their pension fund in a health company. This is a secretary who is not doing anything except clerical work; has no plausible public impact. It verges on being crazy.

So I think there is a zone here where, if we want the best and the brightest, you might bring in both from the private sector, from the academic world a number of people who fit that category and say to them, what are the right rules? How do we get to the right rules? What is the right compensation?

And in some cases I do believe you are going to find that it is some kind of contracting relationship, because there are some areas where, in order to get the very best, they have to work all the time at the cutting edge, and no Government job by itself will keep them there. So you have to have some ability to come in and out of the system, bringing with you that level of experience.

Mr. WALKER. Quickly, Mr. Chairman. First, I think it is important to keep in mind that the principles and concepts that we are talking about here are not corporate concepts; they are modern management principles and concepts that apply to the public sector, the private sector, and the not-for-profit sector.

For any system to work, whether it is a human capital or Civil Service system or a health care system—you name it—corporate government system, you have to have incentives for people to do the right thing, transparency to provide reasonable assurance they will do the right thing because somebody is working, and accountability if they don't do the right thing. That is particularly important in government.

As you properly pointed out, employees have a lot of great ideas. We need to make sure that one of the key things that every agency does is to regularly tap the ideas of their employees as to how we can continuously improve. That is not the norm in government. It should be the norm. It is one of the four elements I talked about before.

Last thing, very importantly. There are many, many needs and opportunities in the Federal Government to try to modernize itself to improve its economy, efficiency, effectiveness, that have nothing to do with politics and that have nothing to do with political parties.

And one of the things that we may need to do—and I believe we desperately need to do it right now in the Department of Defense, and maybe in the Department of Homeland Security, but definitely the Department of Defense—we need a chief operating officer, a chief management official who is a level two official focused on these basic business issues, who is a pro with a term appointment and a performance contract, could come from the Civil Service, could come from the private sector, because it doesn't get focused on.

If we look at other countries, whether it is New Zealand, whether it is the U.K., whether it is the Netherlands, they have these positions. They are ahead of us with regard to transforming government. And this is one of the key elements that has helped them to get to where they need to be.

Thank you.

Mr. DAVIS OF VIRGINIA. Thank you.

Mr. MCTIGUE. Mr. Chairman, let me endorse everything that David Walker has just said, and also what Speaker Gingrich's aid as well. But let me take one part of it a little bit further. In my written testimony to you I have a section in there where I talk about the Office of Personnel Management.

In my view, that is a redundant organization unless it has its function changed dramatically. And its new function should be to identify whether or not each organization in the Government has the capability to do its job. And that means looking at its human capital and seeing whether or not it has those resources in place.

For example, if you read the 9/11 Commission Report, you can see that one of the causes of the failure in intelligence was the fact that something as simple as translation didn't happen in a reasonable period of time. If somebody had been auditing those organizations for their human capital capabilities, immediately that would have been red-flagged. Not only would it have been red-flagged, it would have told you that there was the likelihood of a critical failure of this organization unless something as simple as translation was addressed.

Many organizations suffer from just exactly these things, as you identified, Mr. Chairman, because they don't have the right skills in place, and nobody is focused on identifying that.

Mr. DAVIS OF VIRGINIA. Thank you.

Mr. Davis.

Mr. DAVIS OF ILLINOIS. Thank you very much, Mr. Chairman.

In addition to the creation, perhaps, of the CEO type individual, if we are to develop these results-based high-performance organizations, what else must change if that is to happen within the Federal Government?

Mr. WALKER. Well, first, to clarify, I think we need a chief operating officer or a chief management official. For example, let us take the Department of Defense. You would have the secretary of defense, who is the CEO; you would have a deputy secretary of defense for policy, who is a political appointee and obviously the party of the current president; and you would have a deputy secretary or principal under secretary for management. That is the position I am talking about.

I think one of the things that has to change is we need to get back to basics and we need to focus on what are we trying to accomplish in these different agencies. What type of results and outcomes are we trying to achieve, and how can we align our agencies and our performance measurement reward systems to get that done. I do think we are going to need Civil Service reform. I do think we are going to need Civil Service reform to be more market-oriented and performance-based.

But I do, however, believe it is going to be critically important, in achieving those reforms, that there be adequate safeguards in place to make sure that people do it right and in a nondiscriminatory fashion. And I believe that those systems and safeguards should be in place before agencies are allowed to use those additional flexibilities. I think because if they don't demonstrate to an independent party that they have those systems and safeguards in place, it could be a disaster. But I do think we are going to need to modern our Civil Service system as part of an essential element of trying to accomplish the objectives we have talked about today.

Mr. GINGRICH. Let me pick up on what Mr. Walker just said but approach it from a slightly different angle. I want to say two quick recent stories. One is a Washington Times story, Arabic Words Go Free In Jails, which I will submit, where it turns out the U.S. Department of Prisons has no Arab-speaking translators, despite having currently 119 persons with specific ties to international Islamist terrorist groups.

And, in fact, the person who reported this cannot get transferred from the prison in which he is likely to be killed because he has now been identified and the Arab-speaking people in that prison regard him as a traitor to the cause, and the Bureau of Prisons refuses to transfer him.

The second was an article or a story which came out just a few days ago on CBC, which points out that U.S. border guards allowed a man to enter the United States when he arrived at the Canadian border carrying a homemade sword, a hatchet, a knife, brass knuckles, and a chainsaw stained with what appeared to be blood. He was allowed into the United States. Two decapitated bodies were found the next day in his New Brunswick town.

He was finally arrested during a routine check that discovered outstanding warrants for his arrest. And Bill Anthony, a spokesman for the U.S. Customs and Border Protection, said that Sprays could not be detained because he is a naturalized U.S. citizen and that "being bizarre is not a reason to keep somebody out of this country or lock them up."

Now, I just want to suggest, after the London bombings, that we are not a serious country yet. If the U.S. Bureau of Prisons hasn't figured out we need an Arab translator, and we haven't fired the head of the U.S. Bureau of Prisons for not figuring it out, and we are not protecting the man who blew the whistle, we are not a serious country.

And I want to come back. These are the steps that need to happen in response to your question, Mr. Davis. First of all, there are three assessments: what are your goals, what are your metrics for achieving the goals, and is it working or not. There are six solutions: is the strategy right; are the people right; are they right but

they need to be trained; do they have enough resources; are the regulations wrong, in which case the President should issue new ones; is the legislation wrong, in which case the President should send up proposed changes in legislation.

There are four specific requirements to change the speed and tempo of government: more rapid firing for incompetence; more rapid promotion for achievement; more rapid hiring for new people; and more rapid reassignment for people who are currently in the wrong position.

And unless Porter Goss gets that kind of authority, we are going to remain vulnerable to losing an American city to terrorists. It is that simple and that real.

Mr. DAVIS OF VIRGINIA. Thank you.

Ms. Norton.

Ms. NORTON. Very quickly, Mr. Chairman. I focus on hypotheticals, looking for win-wins, because I don't see how we can proceed in this kind of Congress, or ever in Congress without something approaching it. That is why I look to the A–76. Actually, it was carrot and stick. The stick was exactly what workers didn't want, outsourcing; and the carrot was, look, you restructure it by the way they do the restructuring, as I understand it. Yes, there will be some downsizing—I understand most of that was by attrition—and yet it continues to be controversial.

Mr. McTigue mentioned people being able to keep money in the budget that they saved. Let me just ask a question pertaining to that. When I ran an agency, we did feverishly try to spend at the end of the year, rather than give it back to the Treasury. I hope we weren't being wasteful. But I can tell you every agency does try to make sure it spends its money. I believe we do that in the Congress. Of course, you have to be careful here, because it comes out of your own pocket, out of the members' pocket if you overspend.

I remember in this committee we passed a bill which allowed an agency to set up child care out of its own budget if there was money left over, and there were agencies that did that. I think some agencies would be afraid that if they could keep the money themselves, rather than go back to the Treasury, when the time came for them to go before the authorizing committees and the appropriation committees, they would simply lose it in the budget process. How do you get around that?

Mr. MCTIGUE. Can I answer that? I used to be Minister of Employment at one time, and was responsible for most of the programs that helped get people back into work. Now, if I used up all of the money that I had for long-term unemployed, I had to stop spending on long-term unemployed. But if I managed to get all of the people that I was required to into work with disabilities and had some money left over, that gave me the opportunity of being able to transfer through to putting more of it into the field of long-term unemployed.

Because the Government was actually focusing more on how much public benefit are we buying, they might have decided that they wanted to take another 100,000 people out of being unemployed and, therefore, you didn't necessarily lose money because you proved that you were more efficient or able to get more people the benefit that you sought.

So that worked OK. And what we found was that more and more people were focusing on the result and getting the cost down so that they could multiply the benefit, because their performance payments were attached to how successful were they at moving people back into employment, not whether or not they did it at exactly that quantity of money.

Mr. WALKER. It may be, Ms. Norton, that you make sure that they get the money for 1 year. The gain-sharing could be a 1-year gain-sharing. There is no guarantees that you are going to continue to benefit from that year after year after year; you have to have new savings in order to get new gain-sharing.

I will tell you what some agencies do on your example of child care, including GAO. We have an award-winning child care facility at GAO. We donate space. That is our contribution. And we try to make sure that it has adequate capacity and things of that nature. But that is a soft dollar cost. You know, there is a cost, but it is not a hard dollar cost; we don't have to come out of pocket in order to meet that need.

Mr. GINGRICH. I am going to sound naively idealistic for a second. I really think the legislative branch, under our Constitution, has to be at least as mature as the executive branch. And I think that really means you have to think about, when we talk about retraining the executive branch and we talk about education for executive branch managers, we really have a job to do on our own members and on the staffs, because these are learned patterns. You can train an appropriations committee to say I am always going to be supportive of X amount of flexibility, and that becomes a trained behavior.

I will just give you one example we worked on for a long time that I think had some positive effect. The news media loves to beat up congressional junkets and then loves to beat up Congressmen for not knowing anything about foreign policy. We worked very hard to get—and President Clinton and I worked hard to get every leader since then—at the Executive Level to encourage Congressmen to travel, to talk positively about Congressmen traveling, because I knew if you could get people in the habit of going back home and reporting on their travel, it in fact is rewarded.

People back home want you to be a leader who understands that we are in the world. I don't think any member gets attacked back home for having gone to Afghanistan or gone to Iraq or gone to China and tried to understand what is going on if you are serious about it, and if you go back home and say this is what I did.

I say the same thing here. The Congress is going to have to be an integral part, under our Constitution, of getting to an entrepreneurial public management; it can't be done by the executive branch without the Congress being supportive.

Mr. DAVIS OF VIRGINIA. Thank you very much. We appreciate everyone's testimony today. I think this is just the beginning, not the end. As we move forward, I appreciate very, very much your insights and looking forward to continuing working together.

Mr. McTigue, if we could chat for a moment after the meeting, I have a couple of questions I would like to ask.

But due to the time, I would like to ask that if any Members have additional questions for our witnesses today, they can submit them for the record.

I would again like to thank you all for being here.

The meeting is now adjourned. Thank you all.

[Whereupon, at 4:04 p.m., the subcommittee was adjourned.]

[The prepared statement of Hon. Elijah E. Cummings follows:]

Opening Statement

Representative Elijah E. Cummings, D-Maryland

Hearing on "From Bureaucrats to Plutocrats: Can Entrepreneurialism Work in the Federal Government?"

Subcommittee on Federal Workforce and Agency Organization
U.S. House of Representatives
109th Congress

July 13, 2005

Mr. Chairman,

Thank you for calling this important hearing to examine the federal government's management practices, personnel system, organizational structure, and workforce culture.

In many respects, today's hearing seeks to help answer a fundamental question of what must be done to ensure that federal agencies and departments are high-performing organizations in the 21st Century. With this in mind, I was troubled to read in the GAO report entitled *Transforming Government to Meet Current and Emerging Challenges* that "in many cases, the government is still trying to do business in ways that are based on conditions, priorities, and approaches that existed decades ago and are not well suited to addressing 21st Century challenges."

The GAO went on to offer sensible recommendations that would encourage "needed transformation that include: (1) development of a governmentwide strategic plan and key national indicators to asses the government's performance, position, and progress; (2) implementing a framework for federal human capital reforms; and (3) proposing specific transformation leadership roles models…"

While solutions such as "entrepreneurial public management" need to be considered, it would be imprudent to believe there is a single "cure-all" to address the complex and entrenched transformational challenges of the federal government. The GAO wisely articulated this principle when it wrote, there is "no single approach or institutional reform that can address the myriad of questions and program areas that need to revisited."

Mr. Chairman, in this new century so rich with promise and yet, so beset by vast challenges, making the federal government more effective, efficient, innovative, agile, adaptive, and results oriented is vital to the health and welfare of our citizens and our nation. At the same time, I think we must also agree that achieving these worthwhile ends need not be realized at the cost of undermining our nation's long-standing commitments to oversight,

employee protections, management accountability, and collective bargaining rights.

Regrettably, efforts by the Administration to make the Department of Homeland Security and the Department of Defense more "results oriented" have resulted in a substantial step backwards for the civil service workforce by establishing a human capital system that fails to embrace time honored and time tested traditions of collective bargaining, due process, and employee protections.

In the end, it is imperative that we embrace the values that make America great and rise to the expectations of the American people to meet the challenges of the 21st century by rigorously evaluating and continually refining the base of the federal government.

I yield back the balance of my time and look forward to the testimony of today's witnesses.

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