CREATING AN OFFICE OF MANAGEMENT

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION, AND TECHNOLOGY

OF THE

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTH CONGRESS

SECOND SESSION

MAY 12, 1998

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CREATING AN OFFICE OF MANAGEMENT

TUESDAY, MAY 12, 1998

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

The subcommittee met, pursuant to notice, at 10 a.m., in room 2154, Rayburn House Office Building, Hon. Stephen Horn (chairman of the subcommittee) presiding.

Present: Representatives Horn and Kucinich.

Staff present: J. Russell George, staff director and chief counsel; Bob Alloway, professional staff member; Matthew Ebert, clerk; and Faith Weiss, minority counsel.

Mr. HORN. The Subcommittee on Government Management, Information, and Technology will come to order.

Our hearing today has to do with the Office of Management proposal in the executive branch by which we would separate the "M"—Management—from outside the current Office of Management and Budget.

There is little debate over whether the executive branch of the Federal Government needs better management. It does. It has nothing to do with party. It has nothing to do with ideology. It has to do with complexity and the increasing demands for management questions to be asked that are tremendously important if you are President of the United States or just a citizen that wants good government.

There are two basic alternatives for management in the Federal Government: to leave the management responsibilities in the Office of Management where they currently reside or move general management responsibilities to a new Office of Management in the Executive Office of the President with a Director reporting to the President. OMB would become the Office of Budget, with its Director continuing to report to the President.

This is not a question of theory. It is a question of practicality. Certainly it is within the power of the President and the Director of the Office of Management and Budget to bring about serious management improvements within the present structure. They are free to treat management as a priority. But knowing that, in practice, management is not always made a top priority, we must set a structure that endures. Which organizational alternative, we, must ask, is more likely to be successful when we have a President and a Director of OMB who do not treat management as a top priority?

In the 77-year history of the Bureau of the Budget and its successor, the Office of Management and Budget, there have been a number of internal reorganizations to put greater focus on management. Sometimes the management specialists were centralized in a staff configuration. Sometimes the management specialists were decentralized into a line configuration. That is integrated with the budget examiners who have responsibility for review of the various budget functions.

When President Nixon put a stress on the "M" component and renamed the Bureau of the Budget the Office of Management and Budget, I thought, "At last the management needs of the executive branch will get attention." With budget clout, those in Cabinet departments and independent agencies will improve their orientation so the clients, the taxpayers, will have better service.

Today, the Congressional Research Service will present the history of the staff and line configurations over time. Despite my excitement when President Nixon did make this reorganization, I turned out to be dead wrong. Senior civil servants and political appointees in the 1970's and the 1980's and early 1990's, regardless of the party in power, kept telling me, "Steve, it is not working." I began to ask more critical questions.

In this hearing, we will consider the pros and cons of separating management from the budget process. Experts have repeatedly argued that budget pressures drive out management issues.

We have several experts with us today who have actually lived budget versus management battles in the Executive Office of the President. They will share their insights and recommendations on how best to organize for the "M," management, to be regularly improved during the coming decades of the 21st century.

I hope my friends in the Office of Management and Budget, both current and past senior officers, understand that we are not criticizing their dedication or their good intentions or their hard work. Our intention in creating the Office of Management is to make it easier for the dedicated public servants to succeed and, therefore, to improve significantly the quality of general management throughout the executive branch.

We now turn to a discussion of the best way to accomplish that not for 1 or 2 years, but for generation after generation.

We have two panels of witnesses today.

Panel one will have Dr. Harold Relyea, specialist, American National Government, Congressional Research Service; Dr. Virginia McMurtry, specialist, American National Government, Congressional Research Service; J. Christopher Mihm, Associate Director, Federal Management and Workforce Issues, U.S. General Accounting Office; Paul L. Posner, Director, Budget Issues, Accounting and Information Management, U.S. General Accounting Office; and Ronald Moe, specialist, Government Organization and Management, Congressional Research Service.

On panel two we have some very distinguished ex-administrators who have lived through this problem: Dwight A. Ink, president emeritus, Institute of Public Administration, formerly Assistant Director for Executive Management at the Office of Management and Budget; Joseph H. Wright, chairman and CEO of AMTEC, Inc., formerly Director of Office of Management and Budget; Dr. Paul C.

Light, director of the public policy program, the Pew Charitable Trust, formerly Assistant to the Senate Governmental Affairs staff; and Professor Robert S. Gillmour, director of Institute of Public and Urban Affairs, University of Connecticut, formerly Senate Governmental Affairs staff.

I think most of you gentlemen know the routine here, that all witnesses that appear before us do testify under oath.

We also will automatically put your statement in the record, if you have filed a written statement, the minute we introduce you on the particular panel.

We would like you to summarize that record, if you could, in sort of 7 to 10 minutes at the most; and we would, frankly, like to spend most of the time on the dialog, since we have had a chance to read your papers. And they are very fine papers, and all of that will be printed in the record.

[The prepared statement of Hon. Stephen Horn follows:]

ONE HUNDRED FIFTH CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

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"Creating the Office of Management"

May 12, 1998

OPENING STATEMENT
REPRESENTATIVE STEPHEN HORN (R-CA)

Chairman, Subcommittee on Government Management,
Information, and Technology

There is little debate over whether the Executive Branch of the Federal Government needs better management. It does. The question is how to bring about substantial, enduring improvements. Rather than focus solely on today's particular set of problems, we would be wise to prepare for the long term. We must look to the larger picture of organizational structure.

There are two basic alternatives for management in the Federal Government: to leave general management responsibilities in the Office of Management and Budget, where they currently reside, or to move general management responsibilities to a new Office of Management in the Executive Office of the President with a Director reporting to the President. OMB would become the Office of Budget with its Director continuing to report to the President.

This is not a question of theory; it is a question of practicality. Certainly it is within the power of the President and the Director of the Office of Management and Budget to bring about serious management improvements within the present structure. They are free to treat management as a top priority. But, knowing that in practice management is not always made a top priority, we must set a structure that endures. Which organizational alternative, we must ask, is more likely to be successful when we have a President and a Director of OMB who do not treat management as a top priority?

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When President Nixon put a stress on the "M" – Management – component and renamed the Bureau of the Budget the Office of Management and Budget, I thought: "At last the management needs of the Executive Branch will get attention. With budget clout, those in Cabinet departments and independent agencies will improve their orientation so the clients – the taxpayers – will have better service." Today, the Congressional Research Service will present the history of these "Staff" and "Line" configurations over time.

I was wrong. Senior civil servants and political appointees in the 1970s, 1980s, and the early 1990s kept telling me: "Steve, it is not working." I began to ask more critical questions. In this hearing, we will consider the pros and cons of separating management from the budget process. Experts have repeatedly argued that budget pressures drive out management issues. We have several experts with us today who have actually lived "budget versus management" battles in the Executive Office of the President. They will share their insights and recommendations on how best to organize for the M, management, to be regularly improved during the coming decades of the twenty-first century.

I hope my friends in the Office of Management and Budget, both current and past senior officers, understand that we are not criticizing their dedication, good intentions, or hard work. Our intention in creating the Office of Management is to make it easier for the dedicated public servants to succeed, and therefore to improve significantly the quality of general management throughout the Executive Branch. We now turn to a discussion of the best way to accomplish that, not for one or two years, but for generation after generation.

We have two panels of witnesses today:

Panel One:

Dr. Harold C. Relyea, Specialist, American National Government, Congressional Research Service

Dr. Virginia McMurtry, Specialist, American National Government, Congressional Research Service

J. Christopher Mihm, Associate Director, Federal Management and Workforce Issues, U. S. General Accounting Office

Paul L. Posner, Director, Budget Issues, Accounting and Information Management, U.S. General Accounting Office

Ronald C. Moe, Specialist, Government Organization and Management, CRS

Panel Two:

Dwight A. Ink, President Emeritus, Institute of Public Administration, formerly Assistant Director for Executive Management at OMB

Joseph R. Wright, Chairman and CEO, AMTEC Inc., formerly Director of OMB

Dr. Paul C. Light, Director, Public Policy Program, The Pew Charitable Trust; formerly, Senate Governmental Affairs staff

Professor Robert S. Gilmour, Director of Institute of Public and Urban Affairs, University of Connecticut, formerly Senate Government Affairs staff

Mr. HORN. So if you will stand and raise your right hands.

[Witnesses sworn.]

Mr. HORN. The clerk will note that all five witnesses on panel one have affirmed.

Let us—let me ask my good friend who has come in—my peripheral vision is not good—if he would like to make an opening statement.

Mr. KUCINICH. I try to be shy and unassuming and don't prevail on the Chair that much, but I appreciate you recognizing me.

I commend the Chairman for his quality leadership on government management reform. As I am sure everyone in this room knows and everyone in the Congress knows, Chairman Horn has long been elevating discourse on government management and, when appropriate, sounding alarms in the halls of Congress; and for this we are all in this his debt.

Since 1982, Congress and OMB have been working on legislative initiatives to leverage OMB's leadership of governmentwide management. Many of the more management laws which have been passed since 1990 are still in their early implementation stages. These new statutes provide OMB with guidance and additional authority to initiate better management policies and practices at Federal agencies. The statutes include the Chief Financial Officers Act of 1990; the Government Performance and Results Act of 1993; and the Government Management and Reform Act of 1994, among others.

In 1989, the GAO studied OMB's ability to address management issues. GAO noted in this report, and I quote, while administrative management processes and structures are important, the essence of Federal management is policy implementation and delivery of program service, unquote.

GAO concluded, quote, OMB needs to change. It needs to work closer with the agencies to develop a longer term financial and management strategy and better explain to the President and Congress the consequences of not following the longer term strategy, unquote.

GAO recommended in 1989 that, quote, teams comprised of budget examiners and management staff blending program and management expertise during the budget process are critical to successfully changing OMB's approach. Equally important, however, is the commitment of the President and OMB leadership to such efforts, unquote.

OMB adopted each one of the GAO's major recommendations. Very important to note that. The OMB reintegrated management functions with budget analysis in 1994 with its OMB 2000 program. The OMB 2000 empowered program examiners to address and evaluate agency management issues. OMB is better able today to work closely with agencies on the management issues through its program examiners.

In 1996, GAO noted that its review of OMB's budget documents clearly demonstrated greater attention to management issues by program examiners and reflected strong commitment of OMB's top officials to incorporate the treatment of management issues into the budget cycle.

Despite increased emphasis on long-term management issues and commitment by the administration, OMB can and should do more to improve its institutional capacity to provide appropriate long-term executive branch management.

It is an evolutionary process, but I believe that, together, we are headed in the right direction. Hearings such as this one today keep us focused on our common goal of better long-term Government management. I look forward to the testimony that we will receive and discussing Federal management.

I welcome all the members of the panel, and I look forward to hearing what you have to say. Thank you.

Mr. HORN. I thank you for that very fine statement. Not seeing anyone else, we will begin with the witnesses.

Our first one is Dr. Harold C. Relyea, specialist, American National Government, Congressional Research Service.

STATEMENTS OF HAROLD C. RELYEA, SPECIALIST, AMERICAN NATIONAL GOVERNMENT, CONGRESSIONAL RESEARCH SERVICE, ACCOMPANIED BY VIRGINIA MCMURTY, SPECIALIST, AMERICAN NATIONAL GOVERNMENT, CONGRESSIONAL RESEARCH SERVICE; J. CHRISTOPHER MIHM, ASSOCIATE DIRECTOR, FEDERAL MANAGEMENT AND WORKFORCE ISSUES, U.S. GENERAL ACCOUNTING OFFICE; PAUL L. POSNER, DIRECTOR, BUDGET ISSUES, ACCOUNTING AND INFORMATION MANAGEMENT, U.S. GENERAL ACCOUNTING OFFICE; AND RONALD C. MOE, SPECIALIST, GOVERNMENT ORGANIZATION AND MANAGEMENT, CONGRESSIONAL RESEARCH SERVICE

Mr. RELYEA. Thank you.

Mr. Chairman and members of the subcommittee, joining me this morning is my colleague Virginia McMurtry, also a senior staff member at CRS. We thank you for your invitation to appear here today for this hearing.

In October of last year, Dr. McMurtry and I began meeting with subcommittee staff concerning a requested review of internal reorganizations of the Bureau of the Budget [BOB] and its successor, the Office of Management and Budget [OMB], with a view to the structuring of BOB/OMB capacity and capability to guide or assess aspects of management, both governmentwide or by sectors, and in the Federal Executive departments and agencies.

The timeframe set for the review was 1921 to 1993; that is, beginning with the creation of the Bureau of the Budget and concluding with OMB's structure on the eve of the arrival of the Clinton administration.

For our research, we recognized that management and administration were often used interchangeably, that there was no consistent usage of either term, and, further, that both were sometimes utilized as ambiguous terms of art or fashion.

The governmental focus and historical terms of reference of our research were much clearer. Subsequently, we arrived at the following understanding of management as we pursued it in our review.

To provide leadership on the President's behalf in addressing general problems bearing on the organization and effectiveness of the executive branch, and to assist in the design and implementation of governmentwide strategies aimed at enhancing the ability of Federal agencies to carry out their statutory missions.

This understanding of management also allowed us to consider such qualified or specialized forms as procurement, paperwork, financial, and intergovernmental management, among others.

The preparation of our review of BOB/OMB internal reorganizations, as source note citations indicate, was based upon library research; that is, the examination of published scholarly studies and official government literature. This is an important limitation for our presentation. For example, we did not consult internal BOB/OMB records or conduct any interviews with present or former BOB/OMB officials. Moreover, I might note, the quantity of public literature describing and assessing BOB/OMB internal reorganizations is limited.

Our review of BOB/OMB internal reorganizations has been delivered to the subcommittee for its use. We would like to take this opportunity to reiterate the observations we offer at the end of that review and to respond to such questions as you may have regarding it.

Dr. McMurtry will present our observations.

Mr. HORN. Dr. Virginia McMurtry is a specialist in American National Government at the Congressional Research Service. Welcome.

Ms. MCMURTRY. Thank you. Good morning, Mr. Chairman and members of the subcommittee.

We have six observations on the basis of our study.

First, the BOB/OMB has experienced an ever-changing structuring of management responsibilities. Since 1950, these reconfigurations seem to occur with greater frequency. Over the years, the internal structure has tended to alternate between two basic patterns: a bifurcated structure with separate sides for management and budget staff; or the other approach, a programmatic structure with the budget examiners and management staff integrated in various functional units.

Second, the BOB/OMB has become responsible for various kinds of management—administrative, intergovernmental, personnel utilization, procurement, paperwork/information, statistical, regulatory, and financial, among others. These appear generally to have increased with the progression of years after 1960.

The BOB/OMB has met these responsibilities in various ways—for example, analyses and evaluations, coordination and clearance—all with, of course, shifting resources.

Third, especially since the early 1960's when PPBS—or the planning-programming-budgeting system—was introduced throughout the executive branch, the BOB/OMB has been required by successive administrations to adopt and adapt to a variety of changing arrangements for planning and budgeting. While these frameworks generally shared an orientation toward objectives and outcomes, each system entailed some modifications of BOB/OMB management capacity, sometimes for brief periods of only a few years.

Fourth, considering the management-budget relationship within BOB/OMB, it appears that budget authority has largely been used—or threatened—to accomplish—or seriously pursue—management objectives, but not vice versa.

Fifth, in the years since 1970 when the BOB was reconstituted as the Office of Management and Budget, OMB has experienced an expansion of noncareer middle managers and, consequently, a more complex and extended hierarchy between the most senior leaders of OMB and first-line staff. Moreover, specialized entities such as the Office of Federal Procurement Policy and the Office of Information and Regulatory Affairs have been grafted onto the OMB. The result, as Paul Light noted in his 1995 study, "Thickening Government," is an OMB that grew both taller and wider over the ensuing decades since 1980.

Sixth and finally, the recent experience with the implementation of the Government Performance and Results Act would seem to provide an opportunity to reexamine and reconsider the OMB's management role and the most suitable structure for fulfilling the management responsibilities now vested in OMB. However, CRS takes no position on establishing an Office of Federal Management.

Thank you. We would be happy to respond to your questions later.

Mr. HORN. Well, we thank you both. It is a marvelously succinct statement. It means you spent a lot of time. Anyone can write 20-page statements, but you put it very succinctly on the evolution.

[The prepared statement of Mr. Relyea and Ms. McMurtry follows:]

Harold C. Relyea and Virginia A. McMurtry
Joint Statement
before the
Subcommittee on Government Management, Information, and Technology
House of Representatives
May 12, 1997

Mr. Chairman and members of the subcommittee, my name is Harold Relyea and I am a Specialist in American National Government with the Congressional Research Service of the Library of Congress. I am also the head of the executive and judiciary section of the CRS Government Division. Joining me is Virginia McMurtry, who is also a CRS Specialist in American National Government. We thank you for your invitation to appear here today for this hearing.

In October 1997, Dr. McMurtry and I began meeting with subcommittee staff concerning a requested review of internal reorganizations of the Bureau of the Budget (BOB) and its successor, the Office of Management and Budget (OMB), with a view to the structuring of BOB/OMB capacity and capability to guide or assess aspects of "management," both governmentwide or by sectors, and in the federal executive departments and agencies. The time frame set for the review was 1921-1993, *i.e.*, beginning with the creation of the BOB and concluding with OMB structure on the eve of the arrival of the Clinton Administration and *OMB:2000.*

The word *manage* derives from the Latin and French *manus*, or hand. Its archaic meaning, according to various dictionaries, is to train a horse, to put it through its paces. For human affairs, the word connotes controlling, directing, conducting, guiding, and administering. These words, of course, have different meanings in different political environments, reminding us that management occurs in settings other than a democracy, and is practiced for a variety of purposes, the realization of efficiency and economy being among the most general, but most often expressed.

For our research, we recognized that "management" and "administration" were often used interchangeably, that there was no consistent usage of either term, and that both were sometimes utilized as ambiguous terms of art or fashion. The governmental focus and historical terms of reference of our research were much clearer. Subsequently, we arrived at the following understanding of "management" for the purposes of conducting and reporting the results of our BOB/OMB review, one formulated previously by CRS colleagues:

> to provide leadership on the President's behalf in addressing general problems bearing on the organization and effectiveness of the executive branch, and to

assist in the design and implementation of governmentwide strategies aimed at enhancing the ability of federal agencies to carry out their statutory missions.

This understanding of "management" also allowed us to consider such qualified or specialized forms as procurement, paperwork, financial, and intergovernmental management.

The preparation of our review of BOB/OMB internal reorganizations, as source note citations indicate, was based upon library research, *i.e.* the examination of published scholarly studies and official government literature. This is an important limitation for our presentation. For example, we did not consult internal BOB/OMB records or conduct any interviews with present or former BOB/OMB officials. Moreover, the quantity of public literature describing or assessing BOB/OMB internal reorganizations is limited.

Our review of BOB/OMB internal reorganizations, with a view to the structuring of BOB/OMB capacity and capability to guide or assess aspects of management, has been delivered to the subcommittee for its use. We would like to take this opportunity to reiterate the observations we offer at the end of that review and to respond to such questions as you may have regarding it.

- The BOB/OMB has experienced an ever changing structuring of management responsibilities, reconfigurations seeming to occur more and more frequently with the progression of years after 1950. Over the years, the internal structure has tended to alternate between two approaches: (1) a bifurcated structure, with separate sides for management and budget staff; (2) a programmatic structure, with budget examiners and management staff integrated in various functional units.

- The BOB/OMB has become responsible for various kinds of management—administrative, intergovernmental, personnel utilization, procurement, paperwork/information, statistical, regulatory, and financial, among others—which appear generally to have increased with the progression of years after 1960. The BOB/OMB has met these responsibilities in various ways—*e.g.*, analyses and evaluations, coordination, and clearance—with shifting resources.

- Especially since the early 1960s, when PPBS (or the planning-programming-budgeting system) was introduced throughout the executive branch, the BOB/OMB has been required by successive administrations to adopt and adapt to a variety of changing arrangements for planning and budgeting. While these frameworks generally shared an orientation toward objectives and outcomes, each system entailed some modification of BOB/OMB management capacity, sometimes for brief periods of only a few years.

- Considering the management-budget relationship within the BOB/OMB, it appears that budget authority has largely been used (or threatened) to accomplish (or seriously pursue) management objectives (but not *vice versa*).

- Since the reconstitution of the BOB in 1970, the resulting OMB has, during the succeeding years, experienced an expansion of non-career middle managers and, consequently, a more complex and extended hierarchy between the most senior leaders of OMB and first line staff. Moreover, specialized entities, such as the Office of Federal Procurement Policy and the Office of Information and Regulatory Affairs, have been grafted onto the OMB. The result, as Paul Light noted in his 1995 study, *Thickening Government*, is an OMB that "grew both taller and wider over the ensuing decades" since 1960.

- Finally, the recent experience with the implementation of the Government Performance and Results Act would seem to provide an opportunity to reexamine and reconsider the OMB's management role and the most suitable structure for fulfilling the management responsibilities now vested in OMB. However, CRS takes no position on establishing an Office of Federal Management.

Thank you. We would be happy to respond to questions.

Biographical Profiles

Virginia A. McMurtry is a Specialist in American National Government with the Congressional Research Service of the Library of Congress. She received her B.A. (With honors) from Mount Holyoke College and her M.A. and Ph.D. from the University of Wisconsin, Madison, all in political science. She was a research fellow at the Brookings Institution and taught at the university level before joining CRS in 1974. While at CRS, Dr. McMurtry has prepared many studies for Congress on a variety of subjects, including the formulation and implementation of the federal budget, the Office of Management and Budget, sunset measures and other budget process reform proposals, federal financial management issues, and relations between the President and Congress. Her ongoing CRS research involves the Line Item Veto Act and the Government Performance and Results Act. She is a regular lecturer in the CRS seminar series on the Federal Budget Process and previously served as head of the Legislative and Budget Processes Section. Outside of CRS, her most recent work, "The Impoundment Control Act of 1974: Restraining or Reviving Presidential Power?" appeared in *Public Budgeting & Finance* (Fall 1997).

Harold C. Relyea is a Specialist in American National Government with the Congressional Research Service of the Library of Congress. An undergraduate of Drew University, he received his doctoral degree in government from The American University. Since joining CRS in 1971, he has produced a number of major studies for Congress, including analyses of the office and powers of the President, executive branch organization and management, congressional oversight, and various aspects of government information policy and practice. He currently serves as the head of the executive and judiciary section of the CRS Government Division, is a member of the CRS Systems Security Team, and was formerly the editor of the *CRS Review*.

In addition to his CRS duties, Dr. Relyea has authored numerous articles for scholarly and professional publications in the United States and abroad. His most recent books include *Silencing Science: National Security Controls and Scientific Communication* (1994), *Federal Information Policies in the 1990s* (1996), and *The Executive Office of the President* (1997). He has served on the editorial board of *Presidential Studies Quarterly* since 1978 and *Government Information Quarterly* since its founding in 1984.

Mr. HORN. We will now go to Mr. Christopher Mihm, a regular before this committee. We are going to get malpractice or liability insurance for you over the years. Associate Director of Federal Management and Workforce Issues, U.S. General Accounting Office.

Mr. MIHM. Mr. Chairman and Mr. Kucinich, it is an honor to appear before you again today. My colleague Paul Posner and I will be discussing how the Office of Management and Budget carries out its management responsibilities.

I want to thank you for agreeing to include our prepared statement into the record; and, as you requested, in the interest of brevity and to move as quickly as we can to the dialog, I will take just a couple of minutes to hit the high points.

First, we completely agree with the observation in your opening statement, Mr. Chairman, and as shown by our colleagues from CRS, that OMB's perennial challenge is to ensure that management issues are effectively considered within the context of, but not overwhelmed by, the budget process. Concern that OMB lacks the support and institutional capacity necessary to sustain management efforts throughout the executive branch continue to prompt calls for change.

The second point that we would make today is that the effectiveness of OMB's management leadership has been uneven. In our statement, we discuss eight issues that have been both of particular concern to us at the GAO and to this committee. This morning, I will highlight just three of those issues that, in our view, are most illustrative of the strengths and weaknesses of OMB's current approach: financial management, the year 2000 problem, and crosscutting issues.

Turning to financial management, OMB, in concert with the CFO counsel, has led governmentwide efforts to focus greater attention on financial management issues. We are seeing positive results from OMB's efforts, such as the number of agencies able to obtain unqualified opinions on their audited financial statements. As you know, Mr. Chairman, this year agencies developed the first consolidated financial statements to be subjected to an independent audit in our Nation's history.

However, despite this progress, we still have a very long way to go. GAO was not able to form an opinion on the reliability of the consolidated financial statements because of serious deficiencies in those statements, such as the inability to properly account for billions of dollars of Federal property. These deficiencies are the result of widespread internal control and financial system weaknesses that significantly impair the government's ability to adequately safeguard assets, properly ensure recording of transactions, and ensure compliance with laws and regulations.

Another issue is the year 2000 compliance, which is perhaps the single greatest area of concern today in managing Federal agencies. At the current pace, it is clear that not all mission-critical systems will be fixed in time and that additional attention therefore needs to be given to those systems that serve the highest priorities.

At the insistence of Congress and as the breadth of the work that remains has become known, OMB has shed its initial optimism—and I was here at a number of those hearings, Mr. Horn, where you engaged in a dialog with Mr. Koskinen on this issue and the Federal response in recent months to the crisis has increased.

Finally, OMB can analyze crosscutting program design, implementation and organizational issues. In our work, we have pointed to the need to integrate the consideration of various tools used to achieve Federal goals, such as loans, grants, tax expenditures and regulations. In addition, our work has provided numerous examples of mission fragmentation and program overlap, and we have suggested that OMB take the lead in ensuring that Results Act plans address these concerns.

This effort, however, will be hampered if attempts to resolve problems of program overlap and fragmentation involve organizational changes, because OMB lacks a centralized unit charged with raising and assessing government organizational issues. OMB has not had such a focal point since 1982 when it eliminated its Organization and Special Projects Division.

Turning to our second point this morning, the record of OMB stewardship of management initiatives suggests that creating and sustaining attention to management improvement is a key to addressing the government's long-standing problems. In the past, as we have been discussing, management issues often remained subordinant to budget concerns and timeframes; and the leverage that the budget could offer to advance management efforts was not directly used to address those efforts. The experiences to date suggest that certain factors are associated with successful implementation of management initiatives regardless of the specific organizational arrangement.

First, as you noted in your opening statement, Mr. Chairman, top management support and commitment from within OMB and the White House is often critical. This support, however, is not the only way that we can provide sustained focus on governmentwide management issues within OMB, the agencies, and throughout the resource allocation process.

Second, a strong link to the budget process can be a key factor in gaining serious attention for management issues. In that regard, reforms such as the Government Performance and Results Act, seek to improve decisionmaking by explicitly calling for performance plans to be integrated with budget requests. Irrespective of the location of this leadership, management initiatives must be reflected in and supported by the budget. In fact, we would suggest that no single organizational arrangement by itself guarantees that this integrated decisionmaking will happen.

Third, collaboration with agencies through such approaches as task forces and interagency councils has emerged as an important central leadership strategy in developing policies that are sensitive to implementation concerns and gaining consensus in consistent followthrough.

Fourth and finally, support from Congress has proven to be critical in sustaining interest in management initiatives over time. Congress has, in effect, served as the institutional champion for many management initiatives, providing a consistent focus for oversight and reinforcement of important policies. Congress', and in particular this subcommittee's, attention to the year 2000 problem, information management, and financial management has served to elevate these issues on the administration's management agenda.

Mr. Chairman, this concludes our statement. Mr. Posner and I would be happy to answer any questions that you or Mr. Kucinich may have.

[The prepared statement of Mr. Mihm and Mr. Posner follows:]

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss our observations on the Office of Management and Budget's (OMB) efforts to carry out its responsibilities to set policy and oversee the management of the executive branch.

Today, we will cover three major points. First, we will provide an outline of OMB's wide-ranging management responsibilities and note that the question of whether to integrate or separate management and budget functions has been long debated. Second, we will discuss the effectiveness of OMB's management leadership which, in our view, has been uneven. Finally, we will discuss the factors that appear to contribute to progress in sustaining improvements in federal management. Our observations are made on the basis of work we are currently doing and have done at federal agencies and at OMB.

As you know, OMB supports the president by preparing the president's budget, coordinating the president's legislative agenda, leading efforts to improve the management of the executive branch, and providing policy analysis and advice. Congress has also enacted many statutes that have assigned to OMB a leadership role for a variety of governmentwide policy and oversight responsibilities in areas such as financial management, information resources, and general management, as well as for regulatory and procurement issues.

OMB HAS WIDE-RANGING MANAGEMENT RESPONSIBILITIES

OMB was established under presidential reorganization authority in 1970, in large part to increase the attention given to management issues in the federal government. OMB is the lead agency for overseeing a framework of recently enacted financial, information resources, and performance planning and measurement reforms designed to improve the effectiveness and responsiveness of federal agencies. This framework contains as its core elements financial management improvement legislation, including the Chief Financial Officers (CFO) Act of 1990, the Government Management Reform Act of 1994, and the Federal Financial Management Improvement Act of 1996; information technology reforms, including the Paperwork Reduction Act (PRA) of 1995 and the Clinger-Cohen Act of 1996; and the Government Performance and Results Act of 1993 (the Results Act).

The CFO Act mandated significant financial management reforms and established the Deputy Director for Management (DDM) position within OMB. In addition to serving as the government's key official for financial management, the DDM is to coordinate and supervise a wide range of general management functions of OMB. These functions include those relating to managerial systems, such as the systematic measurement of performance; procurement policy; regulatory affairs; and other management functions, such as organizational studies, long-range planning, program evaluation, and productivity improvement.

OMB is responsible for providing guidance and oversight for various other laws and executive orders as well. For example, the Federal Acquisition Streamlining Act (FASA) requires that executive agency heads set cost, performance, and schedule goals for major acquisition programs and that OMB report to Congress on agencies' progress in meeting these goals. Executive Order 12866 directs OMB to coordinate the review of agencies' rules and regulations to ensure that they impose the least burden, are consistent between agencies, focus on results over process, and are based on sound cost/benefit analysis. OMB also has been responsible since 1967, through its Circular A-76, for carrying out executive branch policy to rely on competition between the federal workforce and the private sector for providing commercial goods and services.

HISTORICALLY, THERE HAVE BEEN QUESTIONS ABOUT WHETHER TO INTEGRATE OR SEPARATE MANAGEMENT AND BUDGET FUNCTIONS

OMB's perennial challenge is to carry out its central management leadership responsibilities in such a way that leverages opportunities of the budget process, while at the same time ensuring that management concerns receive appropriate attention in an environment driven by budget and policy decisions. Concern that OMB and its predecessor agency, the Bureau of the Budget, lacked the support and institutional capacity necessary to sustain management improvement efforts throughout the executive branch has prompted numerous calls for changes in the past.

During the past 50 years, a number of presidential advisory groups have recommended changes designed to strengthen the Office's central management leadership. In response to the recommendations of one of these groups, the Ash Council, the Bureau of the Budget was reorganized in 1970 and renamed OMB, thereby signaling the intent to heighten the management focus in the agency. However, the creation of OMB did not ensure that an institutionalized capacity for governmentwide management leadership would be sustained, nor did it establish how OMB should balance its budget and management responsibilities. As a result, observers have continued to debate how to best ensure that management issues can be effectively considered within the context of–yet without being overwhelmed by–the budget process. Some observers have advocated integrating the two functions, while others have proposed the creation of dedicated offices or a separate agency to provide governmentwide management leadership.

Prior OMB reorganizations, reflecting these different points of view, have alternated between seeking to more directly integrate management into the budget review process and creating separate management offices. Previous congressional and OMB attempts to elevate the status of management by creating separate management units within OMB sought to ensure that an adequate level of effort was focused on management issues. Underscoring its concern that management issues receive appropriate attention, Congress established the DDM position to provide top-level leadership to improve the management of the federal government.

In 1994, OMB reorganized to integrate its budget analysis, mana ·ment review, and policy development roles, in an initiative called "OMB 2000." This reor, nization was the most recent of a series of attempts to bolster OMB's management cap. ·ity and influence. To carry out its responsibilities, OMB's Resource Management Offic (RMO) are responsible for examining agency budget, management, and policy issues. Li ding management reforms to the budget has, at a minimum, provided the opportun to include management issues as part of the president's yearly budget review -a regularly established framework for making decisions.

The RMOs' efforts are supplemented by three OMB statutory offices :reated by Congress: (1) the Office of Federal Financial Management (OFFM) to guide the establishment of systems and controls needed for agencies' financial management; (2) the Office of Federal Procurement Policy (OFPP) to provide overall direction for executive agencies' procurement policies, regulations, and procedures; and (3) the Office of Information and Regulatory Affairs (OIRA) to direct and oversee agencies' management of information resources and reduction of unnecessary paperwork. The OMB 2000 initiative reduced the statutory offices' staffing levels and transferred their responsibilities for overseeing agencies' implementation of many governmentwide management initiatives to the RMOs.[1] This increased OMB's reliance on RMO managers and staff to focus on management

[1]OIRA retained its oversight responsibilities for regulatory and paperwork issues.

issues and coordinate their activities with the statutory offices.[2] In fiscal year 1997, OMB obligated $56 million and employed over 500 staff.

THE EFFECTIVENESS OF OMB'S MANAGEMENT LEADERSHIP HAS BEEN UNEVEN

During the past 3 years, OMB has focused increased attention on management issues, but there is much more that needs to be done. Today, we will highlight some of those issues that have been both of particular concern to this Committee and the subject of our recent work.

Greater Attention to Financial Management Issues

OMB's DDM and the OFFM, in concert with the CFO Council, have led governmentwide efforts to focus greater attention on financial management issues. OMB has played a pivotal role in fostering ongoing financial management reforms ranging from improved financial systems and reporting to new accounting standards. We are seeing positive results from OMB's efforts. For example, eight agencies obtained unqualified opinions on their fiscal year 1997 audited financial statements, and OMB set a performance goal for it to assist 21 of the 24 CFO Act agencies to obtain unqualified and timely audit opinions on

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[2]See Office of Management and Budget: Changes Resulting From the OMB 2000 Reorganization (GAO/GGD/AIMD-96-50, Dec. 29, 1995) and OMB 2000: Changes Resulting From the Reorganization of the Office of Management and Budget (GAO/T-GGD/AIMD-96-68, Feb. 7, 1996)

their annual financial statements for fiscal year 1999. In the 1997 Federal Financial Management Status Report and Five-Year Plan, OMB and the CFO Council discussed accomplishments and future plans in eight priority areas, such as improving financial management systems and implementing the Results Act. OMB also worked with the Department of the Treasury and GAO as part of the Federal Accounting Standards Advisory Board to create a comprehensive set of accounting and cost accounting standards that establish a framework for financial reporting and accountability. In addition, as we reported on March 31, 1998, the federal government prepared consolidated financial statements that have been subjected to an independent audit for the first time in the nation's history.[3]

Despite this progress, we were not able to form an opinion on the reliability of the consolidated financial statements because of serious deficiencies such as the inability to properly account for and report billions of dollars of property, equipment, materials and supplies. These deficiencies are the result of widespread material internal control and financial systems weaknesses that significantly impair the federal government's ability to adequately safeguard assets, ensure proper recording of transactions, and ensure compliance with laws and regulations. With a concerted effort, the federal government as a whole can continue to make progress toward generating reliable financial information

[3]Financial Audit: 1997 Consolidated Financial Statements of the United States Government (GAO/AIMD-98-127, Mar 31, 1998)

on a regular basis. Annual financial statement audits are essential to ensuring the effectiveness of the improvements now under way.

Streamlining the Procurement Process

OMB's OFPP has worked to implement FASA and the Clinger-Cohen Act. OFPP has also been working to streamline the procurement process, promote efficiency, and encourage a more results-oriented approach to planning and monitoring contracts. OFPP is spearheading a multi-agency effort to revise parts of the Federal Acquisition Regulation. For example, a major revision to Part 15 completed last year will contribute greatly to a more flexible, simplified, and efficient process for selecting contractors in competitively negotiated acquisitions. OFPP also developed best practices guides to help agencies draft statements of work, solicitations, and quality assurance plans, as well as to aid in awarding and administering performance-based service contracts. OFPP issued a best practices guide for multiple award task and delivery order contracting to encourage agencies to take advantage of new authorities under FASA. In addition, OMB has encouraged agencies to buy commercial products, conduct electronic commerce, and to consolidate their ordering to take advantage of the buying power of the federal government.

Improving Capital Decision-Making

OMB's efforts to improve capital decision-making are a third example of where OMB's leadership efforts are yielding some results. For example, OMB has required agencies to submit 5-year capital spending plans and justifications--thus encouraging the use of flexible funding mechanisms--and also held the first OMB Director's review on this issue.[4] OMB added a new section to its fiscal year 1998 budget preparation instructions that outlined several broad principles for planning and monitoring acquisition and required agencies to develop baseline cost schedules and performance measurement goals. OMB has also implemented other policy and guidance changes to support new management decision-making requirements and the Chief Information Officers (CIO) Council has adopted the establishment of sound capital planning and investment management practices as one of its strategic goals. The development of the "Raines' Rules"--requiring agencies to satisfy a set of investment management criteria before funding major systems investments--can potentially serve to further underscore the link between information technology management and spending decisions. These investment management practices are also required under the PRA and the Clinger-Cohen Act. The extent to which the

[4]Capital Programming Guide, Version 1, July 1997 (Executive Office of the President, OMB). OMB's Capital Programming Guide provides a range of guidance, from linking capital decisions to strategic goals and objectives to analyzing and ranking potential investments. We provided input to OMB's latest guidance on capital program planning. Also see Executive Guide: Leading Practices in Capital Decision-Making Exposure Draft (GAO/AIMD-98-110, Apr. 1998).

Raines Rules make a difference will depend on how well and how consistently they are applied.

Enhancing Information Security

To address widespread weaknesses in federal information security, the CIO Council, under OMB's leadership, has taken some significant actions, which include designating information security as one of six priority areas and establishing a Security Committee. The Committee, in turn, has developed a preliminary plan for addressing various aspects of the problem and taken steps to increase security awareness and improve federal incident-response capabilities. However, much more needs to be done to monitor agency performance in this area and to ensure that the various management, policy, technical, and legal aspects of information security are effectively addressed. Continuing reports of information security problems are disturbing because federal agencies rely on automated systems and related security controls to support virtually all of their critical operations and assets and to ensure the confidentiality of enormous amounts of sensitive data. Our recent audit of the government's fiscal year 1997 financial statements identified serious information security weaknesses at all 24 CFO agencies. Moreover, we are finding that most agencies have not addressed enhancing information security in their fiscal year 1999 performance plans.

Increasing Year 2000 Compliance

Agencies' computer systems' Year 2000 compliance remains a concern, and serious vulnerabilities remain, although OMB, the President's Council on Year 2000 Conversion, and the CIO Council all have focused attention on increasing compliance. Ensuring that computer systems are Year 2000 compliant represents the widest-scale system and software conversion effort ever attempted.[5] As the year 2000 grows closer and the breadth of the work that remains has become known, OMB has shed its initial optimism and the federal government's response to the crisis has increased. For example, at the urging of Congress, OMB issued guidance requiring agencies to develop contingency plans for critical core business processes and supporting systems.[6] More recently, OMB provided additional guidance stating that these contingency plans can be carried out in accordance with GAO's contingency planning guide.[7] The establishment of the President's Council on Year 2000 Conversion provides an opportunity for the executive branch to take further key implementation steps to avert disruptions to critical services, as we outlined in our recent report.[8] To date, however, progress has been slow, and agencies' schedules often leave no room for delay. Many major departments have already missed

[5]Year 2000 Computing Crisis (GAO/T-AIMD-98-101, Mar. 18, 1998).

[6]Progress on Year 2000 Conversion, U.S. Office of Management and Budget, as of February 15, 1998

[7]Year 2000 Computing Crisis: Business Continuity and Contingency Planning, Exposure Draft (GAO/AIMD-10.1.19, Mar. 1998).

[8]Year 2000 Computing Crisis: Potential for Widespread Disruption Calls for Strong Leadership and Partnerships (GAO/AIMD-98-85, Apr. 30, 1998).

earlier deadlines. At the current pace, it is clear that not all mission critical systems will be fixed in time, and additional attention therefore needs to be given to those systems that serve the highest priorities.

Reviewing Regulations

We also have found that improvements are needed in the process used to review and clear regulations. We have testified on the inadequacies of OMB's efforts to meet congressional paperwork reduction goals.[9] Also, OIRA does not attempt to set priorities for agencies' regulations on the basis of risk (e.g., the number of lives saved or injuries avoided). Concerns have been raised by experts in regulatory issues that federal regulations are not sufficiently focused on the factors that pose the greatest risk and that, as a result, large amounts of money may be spent to accomplish only a slight reduction in risk.[10] Using these same resources in other areas that pose higher risks could yield significantly greater payoffs.

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[9]Paperwork Reduction: Governmentwide Goals Unlikely to Be Met (GAO/T-GGD-97-114, June 4, 1997); Paperwork Reduction: Burden Reduction Goal Unlikely to Be Met (GAO/T-GGD/RCED-96-186, June 5, 1996).

[10]For example, see Tammy O. Tengs and John D. Graham, "The Opportunity Costs of Haphazard Social Investments in Life-Saving," in Robert W. Hahn, ed., Risks, Costs, and Lives Saved (New York: 1996).

Implementing OMB's Circular A-76

OMB's Circular A-76 sets forth federal policy for determining whether commercial activities associated with conducting the government's business will be performed by federal employees or private contractors. The A-76 process calls for agencies to contract for commercial services once they have determined on the basis of cost studies that it would be cost effective to contract out these services. Agencies' efforts to undertake cost studies–with the important exception of the Department of Defense–have declined significantly in recent years. OMB undertakes only limited efforts to monitor or enforce compliance with its A-76 guidance or evaluate the success of this process.

Analyzing Crosscutting Issues

Finally, OMB's oversight role across the government can provide the basis for analyzing crosscutting program design, implementation, and organizational issues. We have pointed to the need to integrate the consideration of the various governmental tools used to achieve federal goals, such as loans, grants, tax expenditures, and regulations. Specifically, we recommended that OMB review tax expenditures with related spending programs during their budget reviews. In addition, our work has provided numerous examples of mission fragmentation and program overlap within federal missions, and we have suggested that OMB take the lead in ensuring that agency Results Act plans address fragmentation concerns.[11] This effort may be hampered if efforts to resolve problems of program overlap and fragmentation involve organizational changes, because OMB lacks a centralized unit charged with raising and assessing government-organization issues. OMB has not had such a focal point since 1982 when it eliminated its Organization and Special Projects Division.

SUSTAINING IMPROVEMENTS IN FEDERAL MANAGEMENT

Mr. Chairman, the record of OMB's stewardship of management initiatives that we have highlighted today suggests that creating and sustaining attention to management improvement is a key to addressing the federal government's longstanding problems. In the past, management issues often remained subordinated to budget concerns and timeframes, and the leverage the budget could offer to advance management efforts was not directly used to address management issues.[12] The experiences to-date suggests that certain factors are associated with the successful implementation of management initiatives, regardless of the specific organizational arrangement.

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[11] Managing for Results: Using the Results Act to Address Mission Fragmentation and Program Overlap (GAO/AIMD-97-146, Aug. 29, 1997) contains an annotated bibliography of GAO work on mission fragmentation and program overlap.

[12] Managing the Government: Revised Approach Could Improve OMB's Effectiveness (GAO/GGD-89-65, May 4, 1989).

First, top management support and commitment within both OMB and the White House is often critical to providing a focus on governmentwide management issues throughout both the budget process and the executive agencies themselves. As our study of OMB 2000 pointed out, management and performance measurement issues gained considerable attention in the budget formulation process initially because of the clear commitment of OMB's leadership. However, top leadership's focus can change over time, which can undermine the follow-through needed to move an initiative from policy development to successful implementation. Thus, although top leadership's interest is an important impetus for the initiation of management policies, it alone is not sufficient to sustain these initiatives over time.

Second, a strong linkage with the budget formulation process can be a key factor in gaining serious attention for management initiatives throughout government. Regardless of the location of the leadership, management initiatives need to be reflected in and supported by the budget and, in fact, no single organizational arrangement by itself guarantees this will happen. Many management policies require budgetary resources for their effective implementation, whether it be financial management reform or information systems investment. Furthermore, initiatives such as the Results Act seek to improve decision-making by explicitly calling for performance plans to be integrated with budget requests. We have found that previous management reforms, such as the Planning-

Programming-Budgeting-System and Management By Objectives, suffered when they were not integrated with routine budget presentations and account structures.[13]

Third, effective collaboration with the agencies–through such approaches as task forces and interagency councils–has emerged as an important central leadership strategy in both developing policies that are sensitive to implementation concerns and gaining consensus and consistent follow-through within the executive branch. In effect, agency collaboration serves to institutionalize many management policies initiated by either Congress or OMB. In our 1989 report on OMB, we found that OMB's work with interagency councils were successful in fostering communication across the executive branch, building commitment to reform efforts, tapping talents that exist within agencies, keeping management issues in the forefront, and initiating important improvement projects. One example of this collaboration is the continuing success of CFOs and the CFO Council in leading agencies in addressing a wide range of financial and related management issues, such as their work, in concert with OMB, on a strategic plan to upgrade and modernize federal financial management systems.

Finally, support from the Congress has proven to be critical in sustaining interest in management initiatives over time. Congress has, in effect, served as the institutional champion for many of these initiatives, providing a consistent focus for oversight and

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[13]Performance Budgeting: Past Initiatives Offer Insights for GPRA Implementation (GAO/AIMD-97-46, Mar 27, 1997).

reinforcement of important policies. For example, Congress'–and in particular this Subcommittee's–attention to the Year 2000 problem, information management, and financial management, has served to elevate the problem on the administration's management agenda.

Separate from the policy decisions concerning how best to organize and focus attention on governmentwide federal management issues, there are some intermediate steps that OMB could take to clarify its responsibilities and improve federal management. For example, OMB could more clearly describe the management results it is trying to achieve, and how it can be held accountable for these results, in its strategic and annual performance plans. Many of OMB's strategic and annual goals were not as results-oriented as they could be. Continued improvement in OMB's plans would provide congressional decisionmakers with better information to use in determining the extent to which OMB is addressing its statutory management and budgetary responsibilities, as well as in assessing OMB's contributions toward achieving desired results. In our 1995 review of OMB 2000, we recommended that OMB review the impact of its reorganization as part of its planned broader assessment of its role in formulating and implementing management policies for the government. OMB has not formally assessed the effectiveness, for example, of the different approaches taken by its statutory offices to promote the integration of management and budget issues. We believe it is important that OMB understand how the reorganization has affected its capacity to provide sustained management leadership.

Mr. Chairman, this concludes our statement. We would be happy to answer any questions that you or other Members of the Subcommittee have at this time.

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Mr. HORN. I should have introduced Mr. Posner with you. I didn't know how you were going to be grouped this morning.

Mr. Posner is Director of Budget Issues, Accounting and Information Management, U.S. General Accounting Office.

Any off-the-cuff remarks you want to make to reinforce you and your colleague's statement?

Mr. POSNER. Just one, to followup on a testimony I gave before your subcommittee in October. That as OMB has moved toward what we might call a more decentralized environment for management, the integrated approach of OMB 2000, it makes the results-oriented perspective and the strategic planning and annual performance plan of GPRA, even more critical for OMB itself to adopt, because it is a privacy way that OMB can target and communicate clear management goals and objectives, both to itself and to the Congress. We have been analyzing those plans over time.

One particular area that we focused on in the OMB 2000 review and we are continuing to focus on, is whether OMB has articulated specifically enough of an agenda for its own internal management of its capacity to address these kinds of issues that you're talking about today.

Mr. HORN. Well, thank you very much.

Our last witness on this panel, unless we have another guest here, Dr. Ronald C. Moe, is a specialist, Government Organization and Management, Congressional Research Service.

I think 7 minutes, Ron, we are going to see if you can hold to that; and then we're going to divide the rest of the time between the ranking minority member and myself.

Mr. MOE. Thank you, Mr. Chairman, for inviting me to testify before your committee on the proposed Office of Federal Management Act of 1998. It is appropriate at the outset to note that the opinions expressed here are my own and do not represent those of my employer, the Congressional Research Service.

In my extended written remarks for the record I have attempted to trace the intellectual and political history of the debate over whether or not two subject fields, budget and management, are best served by being in one agency or separated in two agencies.

If I understand correctly the view of this subcommittee and its chairman, this debate has been largely settled in favor of providing the President with two equal, separate offices, one for budget and one for management. You requested witnesses therefore to be more concerned about the future than the past.

Specifically, you would like to inquire as to what an OFM would look like, what resources it might use profitably to promote long-term institutional capacity and interests of the President and, less directly but no less critically, the legitimate interests of Congress in quality executive branch management. I will use my remaining time, therefore, to offer some observations about the future of an up and running OFM and what functions it might perform.

Many of these functions are already assigned explicitly and implicitly to OMB but are either performed minimally or not at all because of budget and personnel restrictions.

What would this new OFM look like? Well, in the briefest form as provided in the draft bill, which lists all the functions to be performed, it would be an office with between 250 and 300 personnel, one-half the personnel being shifted from the current OMB. Thus, the new staff office for the President could be functioning at full strength with about 125 to 150 additional appointees, most of the latter likely to be personnel transferred from agencies.

In short, this small office will be responsible for the proper functioning of the management laws and directives covering the entire executive branch. In no way should or could OFM be considered the principal decisionmaking unit within the executive branch. Specific departmental and agency decisions are not to be bucked up to an OFM for resolution. Rather, the OFM is intended to be a staff office with responsibility to promote and protect the President's interests in the management of the executive branch.

In the time remaining, may I suggest five fields of responsibility to be addressed by a properly designed and funded OFM?

First, the oversight of the general management laws collectively and individually; second, transition management; third, serve as an early warning system; four, serve as the source of institutional memory; and, fifth, the promoter of management capacity building.

First, oversight of the management laws.

General management law, as used in this testimony, is a term of art referring to those crosscutting laws regulating the activities, procedures and administration of all agencies of Government except where exempted. The quality of general management laws is a crucial factor in maintaining the integrity and accountability of the executive branch to the President and, ultimately, to Congress. General management laws are contracts between the President and Congress.

General management laws come in various guises. They may be dramatic in their coverage and impact, such as the Administrative Procedure Act, Budget and Accounting, Paperwork Reduction, Freedom of Information Act. Or they may be of relatively low visibility, although low visibility is not necessarily with low importance, as the experience of the Federal Advisory Committee Act, the Government Corporation Control Act and the Prompt Payment Act indicate.

In the previous hearing in 1996, Mr. Chairman, you requested that a list be made of these general management laws; and in June 1997, CRS published for your committee an analysis of all the laws—not all, you can always come up with more, depending on how you count it. We are talking about 80 or so laws that have general applicability across the government for which, at this point, no one has comprehensive responsibility for.

In recent years, a number of additional management laws, such as the Federal Manager's Financial Integrity Act, have been enacted, each supported and justified on its own definition of a problem but often with what some observers believe little consideration of its probable impact upon other related general management acts.

Responsibility for the drafting and updating of management laws will presumably be a major responsibility of OFM. The political clout associated with this responsibility should not be underestimated. OFM will be a major player in setting the rules of the game for agency management and will constitute an institutional source of expertise and memory in service of the President.

Thus, an Office of Federal Management consisting of experienced generalists who have spent much of their career in executive branch management could be a cadre of strength for both the President and Congress.

Let me briefly mention the other contributions that an OFM would make but which are not being made very vigorously today.

Transition management. Unlike any other democracy, the United States provides for a thorough replacement in the top management of the executive branch with each change of administration. The persons selected for top positions are often persons who, whatever their business success might have been in the private sector, tend to be inexperienced in Federal Government management. Success in Federal management requires that new skills be learned and considerable immersion in the statutes, both substantive and procedural.

Throughout our history we have little or no formalized transition training or actions centrally run for the top and middle management. The philosophy has been to rely upon on-the-job training and political loyalty to sustain these new managers. The OFM would be charged with developing a coherent training program for top-level appointees and overseeing the programs followed by the individual departments and agencies for mid-level political and career appointees.

Third, OFM would provide an early warning system. Vast complex administrative systems will always encounter management problems. If management success is defined in terms of the number of management problems resolved and filed away, then success will prove elusive.

The key to success in government management, however, is tied to the quality of the response to problems. All too often, a problem in an agency goes undetected or, if detected, unaddressed because it is not in the interest of the incumbent political appointees or career managers to investigate or change policies. What is needed here is an OFM whose mandate is across the board and which is charged to ask managerially tough questions so that problems will not be aired for the first time in a congressional hearing.

Institutional memory would be OFM's next contribution. The Executive Office of the President and especially the President's personal office have little institutional memory. The time horizon for most political appointees in these top positions is very short. Appointments are largely viewed by the appointee as resume enhancers for jobs outside government. This being the case, appointees wonder why invest time in learning the history of my institution?

The values of institutional memory cannot be quantified. But, without it, an institution is doomed to reinvent the wheel and to make unsophisticated and often legally questionable decisions.

Today, Congress and its support agencies, especially the General Accounting Office, are the source of most institutional memory for the President and his staff line offices; and this situation needs to be changed.

Finally, OFM's fifth function is management capacity building. It is often assumed that the OFM proposal is intended to bring another element of control over the Department and agency leadership. While the control element is always present, it is more accurate to say that the mission of OFM would be to increase the capacity of managers to manage and agencies to produce.

Capacity building is an ambitious and sophisticated goal. To build the capacity of government to implement the laws, it is necessary to have OFM develop and apply sensible management directives and practices. OFM should write the Executive orders having to do with management.

The principal objective in creating an OFM, according to its supporters, is to shift the focus of executive branch management away from control and the budget and toward capacity building. Building managerial capacity within the executive branch requires not only an investment in people, resources, and systems, but some sophistication about the nature of management in the governmental sector.

For example, as the executive branch relies more on third-party delivery of services like private contractors, the management requirements not only do they not subside but they have to go up to a much higher level of sophistication than is the case when an activity is performed in-house.

The assertion that somehow the Federal Government is like a large private corporation—General Electric for some reason is always selected as an example—and should be managed like one is not only misleading but, worse, it's a myth. Managing complex systems of laws, organizations, people, and technology under public scrutiny is a substantially more difficult task than running a business; and there is no corporation in this country that has a board of directors as tough as the Congress of the United States.

So, in concluding, may I say this? Whether by intention or neglect, recent Presidents have generally been ineffective managers; and the negative results have been cumulative. Presidents need to recognize anew that their fundamental constitutional responsibility is to ensure that the laws are faithfully executed, not to encourage managers to ignore them in the form of saying: We want you to be a risk taker.

The foremost tool by which a President can meet his constitutional responsibilities and hold accountable the world's most complex political institution is through high quality, conceptually sound general management laws. The laws however are not self-executing. The need for a professional, nonpartisan cadre of management specialists to implement these laws is critical. Sound laws and quality personnel are the necessary, although not sufficient, basis upon which the President and his staff may become full managers of the executive branch.

To build a competent government requires a long-term commitment, one lasting over several presidencies and one transcending partisanship and political philosophy. Such a commitment can only be met with strong institutional support, the kind of support that advocates of an OFM believe to be possible. Competent government is simply a necessity if the United States is to retain its preeminent status into the 21st century.

Thank you.

Mr. HORN. We thank you.

[The prepared statement of Mr. Moe follows:]

**STATEMENT BY RONALD C. MOE
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**HOUSE COMMITTEE ON GOVERNMENT
REFORM AND OVERSIGHT
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION AND TECHNOLOGY**

"Office of Federal Management Act of 1998"

MAY 12, 1998

Mr. Chairman, thank you for inviting me to testify before your Committee on the proposed Office of Federal Management Act of 1998, H.R. ____. This bill would provide for the reorganization of the present Office of Management and Budget (OMB) into two equal, separate offices; an Office of Budget and an Office of Federal Management. Both Offices would be in the Executive Office of the President and both Directors would report directly to the President.

Office of Management and Budget Today

Previous hearings and reports by this Committee have addressed the question: Is the Office of Management and Budget (OMB) as presently organized performing its managerial responsibilities in an effective manner? After many hours of testimony by OMB officials, both past and present, and by outside observers and scholars, the answer to this question appears to be in the negative. Arguably, the management interests, properly defined, of the President, the executive branch generally, and Congress are not being fully served by the current organization of OMB.[1] In the words of Subcommittee Chairman, Stephen Horn:

> The capacity available to the President in the Office of Management and Budget has steadily declined and now barely exists, despite a competent Director of OMB and a Deputy Director for Management, whose talents in this area are underutilized. Federal management organization, oversight authority, and general influence have been consistently overridden by recurring budget crises and budget cycle demands, despite conscientious intentions to give "Budget" and "Management" equal voice within OMB....

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[1] See: U.S. Congress, House, Subcommittee on Government Management, Information and Technology, *Federal Budget Process Reform*, Hearings, 104th Congress, 2nd session (Washington: GPO, 1996). U.S. Congress, House, Committee on Government Reform and Oversight, *Making Government Work: Fulfilling the Mandate for Change*, H.Rept. 104-435, 104th Congress, 1st session (Washington: GPO, 1995).

> Management of the Federal Government should be a presidential priority.... To enhance the President's management capability, Congress should establish in the Executive Office of the President a top-level management and organization oversight office (Office of Management) headed by an administrator who has direct access to the President.[2]

Defenders of the present OMB organizational structure argue, on the other hand, that management problems can be addressed only when assigned the "clout" of the budget. It is the budget process, in their view, that promotes whatever management improvements are likely to occur, therefore it is essential that budget and management be located in the same agency. The National Performance Review (NPR) in 1993[3] went a step further by rejecting earlier recommendations to rebuild the management side of OMB[4] and implicitly proposed that OMB cease to have a separate management component altogether. A subsequent OMB reorganization ("OMB 2000 Review")[5] largely implemented the NPR suggestion by integrating the small remaining staff of the General Management Division along with existing budget analysts into five Resource Management Offices (RMOs) structured along budgetary functional lines. Insofar as designated management functions remain in OMB, they are located in much reduced statutory elements of the agency (e.g., Office of Federal Procurement Policy).

In defending the 1994 reorganization of OMB, then OMB Director, Leon Panetta, stated: " Critics of these recommendations may say the effort to 'integrate' management and budget will end in merely bigger budget divisions, whose management responsibilities will be driven out by daily fire-fighting on budget issues.... We believe this criticism is based on a false premise that 'management' and 'budget' issues can be thought of separately."[6]

The question arises: Is the premise that budget and management issues are inseparable a valid premise? There is a substantial body of opinion contending, on the contrary, that not only are budget and management separable in theory, they

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[2] U.S. Congress, House, Committee on Government Reform and Oversight, *Making Government Work: Fulfilling the Mandate for Change,* H. Rept. 104-435, 104th Congress, 1st session (Washington: GPO, 1995), pp. 5, 8.

[3] U.S. Executive Office of the President, National Performance Review, *From Red Tape to Results: Creating a Government That Works Better and Costs Less* (Washington: GPO, 1993).

[4] National Academy of Public Administration, *Revitalizing Federal Management: Managers and Their Overburdened Systems* (Washington: National Academy of Public Administration, 1983). U.S. Congress, House, Committee on the Budget, *Management Reform: A Top Priority for the Federal Executive Branch,* Committee print, 102nd Congress, 1st session (Washington: GPO, 1991).

[5] U.S. Office of Management and Budget, "Making OMB More Effective in Serving the Presidency: Changes in OMB as a Result of the OMB 2000 Review," OMB Memorandum No. 94-16, March 1, 1994.

[6] Leon Panetta, quoted in "Executive Memo: OMB Management Merger," *Government Executive,* 26(April 1994), p. 8.

should be separate in practice. In fact, critics of the current OMB and the integration of management issues and personnel into budgetary processes argue that management values and issues can only be addressed properly if management is institutionally separate from the budget.[7] The experiment with an integrated OMB is judged by many to be a failed experiment and that today crucial management and institutional issues are being addressed in a perfunctory way or not at all.[8]

The distinctions between the budgetary and management cultures are genuine. The budgetary culture necessarily and properly has a short-term perspective in which future resource allocation measured in financial terms is critical. It is a highly politicized process that emphasizes control mechanisms. The crucial variable in the budgetary process is annual "scoring" which often imposes relatively arbitrary limits on agency management to meet macro-financial objectives.

Management, on the other hand, is a culture that tends to operate with a long-term perspective and seeks to maximize the capacity of institutions to perform their statutory mission. Thus, management may seek to "invest" in management choices by making long-term, prospective decisions. The principal tool of Federal management is the 80 or so general management laws which assist or diminish, depending on the conceptual quality of the laws, the capabilities of agency management.[9] Immediate budgetary interests and constraints are necessarily influential, but they are only one of the factors that are critical in the management equation.

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[7] Dwight Ink, one-time President of the Institute for Public Administration, is someone who believes that management must be separate from budgetary priorities to be effective. "Having been responsible for the drafting of the reorganization plan establishing OMB and having had responsibility for defending that proposed agency before a skeptical Congress, which I would say in retrospect was a very serious mistake on my part, I have a very special interest in this subject. I also happen to have headed the management effort under both the Bureau of the Budget and the Office of Management and Budget.... I do not believe that the M can every truly succeed while part of OMB, and... I have long advocated a separate OFM....

"The management side has to be able to establish its own agenda in support of the presidential and congressional policies rather than merely serving in a support role to the budget process." U.S. Congress, Senate, Committee on Governmental Affairs, *OMB's Response to Government Management Failures*, Hearings, 101st Congress, 2nd session (Washington: GPO, 1991), p. 29.

[8] According to Paul Light: "[S]enior members of the National Academy of Public Administration (NAPA) have argued for the creation of an entirely new Office of Federal Management, the argument being that budget will always crowd out management. Far better to have the *M* ignored on its own than completely submerged by budget. After waiting three decades for OMB to begin the rebuilding, it appears that advocates of a separate office operating elsewhere in the Executive Office of the President have the winning argument." *The Tides of Reform* (New Haven: Yale University Press, 1997), p. 228.

[9] U.S. Library of Congress, Congressional Research Service, *General Management Laws: A Selective Compendium* ed. Ronald C. Moe, CRS Rept. 97-613 (Washington: CRS, 1997).

Unfortunately, in the view of some scholars and practitioners of government management, when budget and management institutions and personnel are combined, short-term budgetary values and priorities necessarily displace longer-term management values and priorities. Long-term management issues and proposals often lack immediate political appeal and thus the intellectual capital so necessary for institutional growth and creativity is sacrificed to the appeal of a short-term, immediate "savings."

The net result of years of stressing budgetary over management values has produced a situation where whole major fields of governmental activities are essentially "unmanaged" from a central managerial perspective. Government corporations and enterprises, for instance, are being created *sui generis* with little central review in the executive branch to insure conformance with statutory and customary standards of organization, operations and accountability. Today, Performance-Based Organizations (PBOs) are being promoted by the Vice President and the NPR notwithstanding the absence of clear statutory authority to create such bodies and the absence of criteria and standards for financial accountability agreed to by Congress.[10] Throughout the whole "reinventing" process there has been an effort to exempt agencies and programs from the supervision of general management laws (e.g., personnel acts) and from congressional oversight.[11] Increasingly, the management of the executive branch is disaggregated, uneven in execution, and often subordinated to budgetary priorities.

Are the Governmental and Private Sectors Alike?

The underlying premise of much of the "reinventing government" exercise is that the governmental and private sectors are alike and best managed according to certain generic business sector principles (e.g., "customer satisfaction"). The entrepreneurial management model outlined first in Osborne and Gaebler's popular book, *Reinventing Government*,[12] and later in Vice President Al Gore's *National Performance Review Report*,[13] seeks to replace the "old, broken way" with the "new

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[10] Alasdair Roberts, "Performance-Based Organizations: Assessing the Gore Plan," *Public Administration Review*, 57(November/December, 1997): 465-78.

[11] Donald F. Kettl has detected a bias in the "reinventing government" exercise. "First, 'reinventing government' seeks the transfer of power from the legislative to the executive branch. In the Vice President's report, Congress is notable principally for its rare appearance. When it does appear, it is usually as an unindicted co-conspirator responsible for undermining effective management. The NPR criticizes Congress for micromanagement and for unpredictable budgetary decisions. Almost all of what the NPR recommends, in fact, requires that Congress give up power." "Beyond the Rhetoric of Reinvention: Driving Themes of the Clinton Administration's Management Reforms," *Governance*, 7(July 1994), p. 309.

[12] David Osborne and Ted Gaebler, *Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector from Schoolhouse to State House, City Hall to Pentagon* (Reading, Mass.: Addison-Wesley, 1992).

[13] U.S. Executive Office of the President, National Performance Review, *From Red Tape to Results: Creating Government That Works Better and Costs Less* (Washington:

(continued...)

entrepreneurial management" unencumbered by so-called red tape. "Effective entrepreneurial governments," the report asserts, "cast aside red tape, shifting from systems in which people are accountable for following rules to systems in which they are accountable for achieving results."[14] This call to "cast aside red tape" is, on the surface, an appealing idea that has few straightforward opponents. However, one person's "red tape" often turns out to be another person's "fundamental right." "Red tape" is generally employed as a metaphor for laws, executive orders, regulations, and directives, the system that entrepreneurs argue is obsolete and broken.

The traditional theory of public administration, in contrast to the contemporary entrepreneurial theory of governmental management, is based on the premise that the governmental and private sectors are fundamentally distinctive. They are not alike in their essentials and the applicability of business school axioms to government agency management is problematical at best. The foundation of governmental management, according to the traditionalists, is to be found in public law, not in behavioral theories of management. The fact is that the private and governmental sectors are based on fundamentally different streams of legal doctrine: one traditionally rooted in judge-made common law, protecting rights and asserting duties in the relations of private individuals; the other founded on the body of the Constitution and the Bill of Rights and articulated by a truly enormous body of statutory, regulatory, and case law to ensure continuance of a republican form of government and to protect the rights and freedoms of citizens at the hands of an all-powerful state.

Public law is the under-appreciated "cement" that binds the separated powers of the administrative state, ensures political and legal accountability of its officials, and restrains abuses of administrative discretion and conflicts of interest.

With respect to management, the distinctions between the sectors are manifest. *"The distinguishing characteristic of governmental management, contrasted to private management, is that the actions of governmental officials must have their basis in public law, not in the pecuniary interests of private entrepreneurs and owners or in the fiduciary concerns of corporate managers."*[15] The hierarchical structure found in the executive branch is designed more to ensure accountability for managerial actions than to promote control over employees. The value of accountability to politically chosen leaders outranks the premium placed on efficient, low-cost service. It is less a question of pursuing one value at the expense of the other, however, than it is a matter of precedence in the event of conflict.

Under the traditional public law theory of management, what are the purposes of agency management? (1) **The purpose of agency management is to implement**

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[13](...continued)
GPO, 1993).

[14] *Ibid.*, pp. 6-7.

[15] Ronald C. Moe and Robert S. Gilmour, "Rediscovering Principles of Public Administration: The Neglected Foundation of Public Law," *Public Administration Review, 55(March/April 1995)*, p. 138. (Italics in the original.)

the laws passed by Congress as elected representatives of the people. (2) **The President is the chief executive officer of the executive branch and Commander-in-Chief of the armed forces and as such is responsible for the proper execution and administration of the laws.** (3) **Executive branch managers are held legally accountable by reviewing courts for maintaining procedural safeguards in dealing with both citizens and employees and for conforming to legislative deadlines and substantive standards.** Additional requirements for presidential and agency management under the public law theory may be stated, but the point is clear: law is the foundation of public management.

General Management Laws as "Political Clout"

"General management law," as used in this testimony, is a term of art referring to those cross-cutting laws regulating the activities, procedures, and administration of all agencies of government, except where exempted by category of organization or by provision in their enabling statute. The quality of the general management laws is a crucial factor in maintaining the integrity and accountability of the executive branch to the President and, ultimately, to Congress.

General management laws are intended to provide appropriate uniformity and standardization for government organizations and processes. Uniformity and standardization by themselves, however, are not the objective of general management laws. Such an objective would stultify government as "one size does not fit all." What these laws do reflect, therefore, are the conceptual and legal agreements between the branches respecting the management of the executive branch. In functional terms, general management laws are statements of presumption guiding governmental behavior; that is, certain doctrinal provisions reflected in legal language stand until and unless an exemption is permitted. Exemptions may be assigned by a general statute to a category of agency or they may be present in provisions of the agency's enabling statute. Exemptions from general management laws may be mandatory or discretionary.

General management laws come in various guises and may be dramatic in their coverage and impact, as is the case with the Administrative Procedure Act; Budget and Accounting, Paperwork Reduction, and Freedom of Information Acts, or they may be of relatively low visibility (although visibility is not necessarily equatable with importance), such as the Federal Advisory Committee Act; and the Prompt Payment Act. In recent years a number of additional general management laws, such as the Federal Managers Financial Integrity Act, have been enacted, each supported and justified on its own definition of a problem, but often with what some observers believe to be little consideration of its probable impact upon other related general management acts.

One purpose of these general management laws, and of the host of additional similar acts, is to shift the focus of deliberation and decision to the general rather than the exceptional. The politics of general applicability is a politics by which the President, central management agencies, and Congress have the authority and leverage to keep the natural centrifugal forces of administrative practices within accountable limits. That is, the laws and regulations apply to all agencies, with the supplicants for exemption carrying the burden of proof. Exceptional politics occurs when there are not applicable general management laws or when those that exist have been permitted to atrophy or, conversely, become cumbersome or obsolete through extraneous amendments or technology.

Responsibility for the drafting and updating of management laws will, presumably, be a major responsibility of the OFM. The political clout associated with this responsibility should not be underestimated. OFM will be a major player in setting the "rules of the game" for agency management and will constitute an institutional source of expertise and memory in service to the President. Thus, an OFM consisting of experienced generalists who have spent much of their career in executive branch management could be a cadre of strength for both the President and Congress.

Have general management laws, viewed both singularly and collectively, been designed to promote a consistent and comprehensible theory of management appropriate to the distinctive requirements of the governmental sector? Or, are the general management laws, viewed comprehensively, largely the sum total of many singular laws intended to achieve different and occasionally conflicting ends? Are there too many laws, or too few? Do they balance standards of legal accountability with the needs of agency management discretion? Are the laws and the regulations promulgated pursuant to them under the continuing supervision of, and subject to, periodic revision by central management agencies accountable directly to the President? Or, do the laws reflect a gradual presidential retreat from active management responsibilities? Do the laws encourage agency leadership to proceed largely on its own, seeking waivers form coverage and accommodations with other agencies, private contractors, and Congress? What interest does Congress have in current management laws? Do they provide opportunities to enhance the capacity of agency leadership to implement laws and policies, or opportunities to insure greater agency sensitivity to congressional committees? In short, Presidents, and less directly although equally critical, Congress, have a stake in the quality of the general management laws.

At Hearings of this Committee in 1996, ("Federal Budget Process Reform"), one segment was devoted to Sections 2 and 6 of the Omnibus Budget Act that would have provided for the reorganization of the present Office of Management and Budget into two equal separate offices, an Office of Budget and an Office of Federal Management, a proposal not unlike the one we are discussing today. At that time the subject of general management laws was raised. The Chairman asked if there was any official listing of acts of a general management character. I responded in the negative. He subsequently requested CRS to develop such a listing with analysis of each act. Mr. Chairman, in June 1997, CRS published a compendium on the general management laws applicable to the executive branch.[16] It is our current intention, if

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[16] U.S. Library of Congress, Congressional Research Service, *General Management Laws: A Selective Compendium*, ed. Ronald C. Moe, CRS Rept. 97-613 (Washington: CRS, 1997). This report should be read in companion with: U.S. Congress, Senate, Committee on Governmental Affairs, *Office of Management and Budget; Evolving Roles and Future Issues*. Prepared by the Congressional Research Service, S. Prt. 99-134, 99th Congress, 2nd session (Washington: GPO, 1986).

you so direct, to maintain, update, and improve this compendium at the close of each Congress. This compendium provides an overview of the laws that, for the most part, would be the responsibility of the new OFM.

Office of Federal Management: Organization

The bill, "Office of Federal Management Act of 1998," provides for the reorganization of the present Office of Management and Budget into two separate and equal agencies within the Executive Office of the President; an Office of Federal Budget (OFB) and an Office of Federal Management (OFM). Each agency shall be headed by a Director appointed by the President and confirmed by the Senate. Each agency shall have a Deputy Director who shall be appointed by the President and confirmed by the Senate. The rank of Director in both agencies shall be at Executive Level I; the rank of Deputy Director shall be at Executive Level II.

It should be noted that Executive Level I is considered as "Cabinet rank" although it remains the prerogative of the President to determine if the Directors of OFB and OFM are to participate in Cabinet deliberations. The current Director of OMB is designated as Executive Level I and does participate when the Cabinet is convened.

Generally speaking, this ranking will permit the Director of OFM to deal as an equal with departmental Secretaries. Given the informal, yet firm, protocols ("pecking order") in the executive branch, equals tend to speak only to equals. If the OFM, or the OFB for that matter, are to be considered more than staff offices in the Executive Office, it is appropriate that their chiefs have this formal rank.

Associate Directors

The OFM, according to this bill, would have 6 Associate Direcctors appointed by the OFM Director to Senior Executive Service (SES) General Positions. These Associate Directors shall be selected from among persons in the SES and shall carry the rank and compensation of SES Level 6. Such appointees may be reassigned in accordance with provisions of the Civil Service Reform Act of 1978 (CSRA) (P.L. 95-454).

The intent of this provision in the bill appears to be to emphasize the non-partisan mission of the agency and the need to develop and reward institutional competence in this staff office that is close to the President. It is apparently intended that this Office seek out the best career managers from among the serving managers in the executive branch. Given the category of Noncareer Executive Appointment authorized in CSRA, it is still possible, on a case-by-case basis, for the Director to appoint an Associate Director from persons outside the career service.

Reorganization of Statutory Offices

Over the years and for various political reasons that seemed persuasive at the moment, three Offices within OMB have been established with direct legal authority by-passing the Director and assigned directly to subordinate officers. The following Offices established by statute are abolished and their functions as provided in their enabling statutes, are transferred to the Director of OFM for redelegation to one or another of the Associate Directors. The Offices in question are:

1. The Office of Information and Regulatory Affairs (44 U.S.C. 3503)
2. The Office of Federal Procurement Policy, as established under section (a) of the Office of Federal Procurement Act (41 U.S.C. 404(a))
3. The Office of Federal Financial Management (31 U.S.C. 501)

The apparent rationale for this transfer of authority to the Director of OFM is to insure that lines of accountability are clear and that the OFM is not "balkanized" into small fiefdoms. Political accountability necessarily assumes legally based hierarchical reporting structures. Generally speaking, public administration theory and practice discourage the direct assignment of legal authority to a subordinate within an agency. As the *Hoover Commission Report* succinctly stated in 1949: "Under the President, the heads of departments must hold full responsibility for the conduct of their departments. There must be a clear line of authority reaching down through every step of the organization and no subordinate should have authority independent from that of his superior."[17]

Areas of Management Concern

The bill provides that the Director take necessary steps to insure that the following areas of concern are administered with professional competence. As it happens, there are six areas of concern listed, a number equal to the number of Associate Directors. It appears that this was intentional but it is worth noting that the manner in which this provision is written indicates that the assignment of these areas of concern is purely a decision of the OFM Director. The six areas of concern are: (1) Government Organization; (2) Financial Management; (3) Human Resources Management; (4) Regulatory Review; (5) Management Development; and (6) Procurement, Grants-in-aid, and Logistics Management.

What follows, for discussion purposes, is the first set of provisions included under Functions of the Office.

D. The Director shall take necessary steps to insure that the following areas of concern are administered with professional competence.:
    1. Government Organization
        a. Review Governmentwide organizational structure on a continuing basis, periodically reporting to the President and Congress and the state of Government organization and of proposals to improve the performance and efficiency of Federal programs.
        b. Oversee the overall operations and management of Government corporations, Government-sponsored enterprises, quasi-governmental entities, and other institutions with a Government interest.

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[17] U.S. Commission on the Organization of the Executive Branch of the Government, *Hoover Commission Report* (New York: McGraw-Hill, 1949), p. 24.

c. The Director shall be responsible for developing criteria and standards to be met prior to the submission of legislation or establish new or reorganize existing Government corporations, enterprises, and other entities with a government interest.
d. Facilitate interagency cooperation and assist in developing effective coordinating mechanisms throughout the Government.

It would appear from this provision that this will be the core Office to view Federal management from a presidential perspective. This will be a cadre of career generalists who will be available to design, organize, and reorganize the organizations of the executive branch according to general policies set out by the Director. This Office will perform many of the functions once performed by the Administrative Management Division of the Bureau of the Budget during the 1940s and 1950s.[18] The evidence is fairly persuasive that the management of the executive branch from a presidential perspective is in its third decade of decline[19] notwithstanding the claims of the National Performance Review that management now claims top priority.[20]

Congress as Co-Manager

The purpose of executive branch management is to implement the laws passed by Congress. This statement of the purpose of government management is fundamental to order under our Constitution. As a matter of direct delegation under Article I, Congress makes the laws, establishes offices and departments, and appropriates necessary funding. The missions and priorities of agencies are determined by law, not by the President or by the departments heads, either collectively or separately.

While comity and cooperation among Congress, the President, and the agencies are the bases for most relationships between the branches, the authoritative element in the relationship is clear. Management of the executive branch, both in terms of process and behavior, is ultimately dependent upon Congress and the law. Moreover, Congress (individual members, committees, institutional subordinates, and staff) is deeply involved in setting and overseeing both the broad dimensions and detailed

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[18] Frederick Mosher, *A Tale of Two Agencies: A Comparative Analysis of the General Accounting Office and the Office of Management and Budget* (Baton Rouge: Louisiana State University Press, 1984). National Academy of Public Administration, *Two Presidents: The Bureau of the Budget and Division of Administrative Management, 1939-1952.* Occasional paper by Charles F. Bingman (Washington: NAPA, 1992).

[19] For a discussion of the purported presidential retreat from managerial leadership of the executive branch, see: Alan Dean, Dwight Ink, and Harold Seidman, "OMB's 'M' Fading Away," *Government Executive*, 25(June 1994): 62-64. Light, *The Tides of Reform*, chapter 6. Mark L. Goldstein, "The Flickering M in OMB," *Government Executive*, 22(March 1990): 26-32.

[20] U.S. Office of the Vice President, National Performance Review, "Businesslike Government: Lessons Learned from America's Best Companies," (Washington: National Performance Review, 1997). David Osborne and Peter Plastrik, *Banishing Bureaucracy: The Five Strategies for Reinventing Government*, (Reading, MA: Addison-Wesley, 1997).

particulars of programs, processes, procedures, work rules, and management of performance standards. In one policy area after another, what were once broad, unspecified statutory delegations of power to the executive have been laced with nearly countless requirements, limits, directions, prohibitions, personnel restrictions, deadlines, hammers, "no-expenditure" clauses, and other means of asserting direct congressional access to detailed policy development and program administration.

Robert S. Gilmour and Alexis Halley, after reviewing ten case studies of administrative management issues, concluded:

> [T]he relationship between Congress and the executive branch... leads to the overall conclusion that the Congress observed in these cases was not only an active and authoritative overseer but also a thoroughly involved participant -- a co-manager -- with (or sometimes in spite of) the executive in directing the details of policy implementation and program execution. The cases collectively suggest that the term *congressional co-management* of policy implementation and program execution characterizes the transition from a congressional reliance on post-audit oversight of executive branch performance to pre-audit congressional program controls and direct congressional participation with the executive branch in the full scope of policy and program development and implementation.... The cases also suggest that congressional co-management is as much a result of actions in the executive branch as it is a result of actions in the legislative branch.[21]

In the private sector, there are compliant boards of directors which occasionally challenge the policies and decisions of management, but they can in no way be compared to the supervision provided agency management by Congress. Repeatedly, outside "CEOs" brought in to "reinvent" or "re-engineer" this program or that agency along private sector lines are shocked to find that they must meticulously obey laws and regulations and are answerable to Congress for their actions. This congressional involvement is not aberrational behavior nor is it a political strategy employed by an "imperialistic" Congress. Because of Congress's immense legislative powers to organize and control the orientation, even the very existence of every aspect of executive branch management, Congress has always had the potential -- frequently realized in contemporary practice -- to be a veritable co-manager of policy and program implementation. Whenever there is a vacuum in executive branch leadership, and these vacuums have increased in number and scope in recent years,[22]

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[21] Robert S. Gilmour and Alexis Halley, eds. *Who Makes Public Policy? The Struggle for Control Between Congress and the Executive* (Chatham, NJ: Chatham House Publishers, 1994), p. 335.

[22] Breakdowns in executive branch leadership are often the center of congressional attention. For example, in 1990, the Department of Housing and Urban Development (HUD) was undergoing management problems with respect to one of its major programs. William M Diefendorfer III, Deputy Director of OMB for Management, described OMB's management oversight of the executive branch as "moribund." "We had one person looking at the management side for all government." With respect to the management problems at

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direct congressional intervention in the details of administrative management is a distinct possibility.

Recent Presidents have tended to not accept or appreciate the legitimate congressional role in executive management and have followed strategies to circumvent Congress which, for the most part, have resulted in counter-measures by Congress to protect their prerogatives and limit presidential discretion. In the absence of a staff agency to remind Presidents of their long-term institutional interests, President are prone to listen to political aides and indulge in unwise legal confrontations with Congress. Though Presidents periodically challenge Congress on some administrative matters, such as the latter's interpretation of appointments under the Vacancies Act, there has been little comprehensive leadership provided by the President or OMB on government-wide management problems.

One of the most important and least reported trends in recent decades has been the shift of initiative over executive branch management from the President to the Congress. Paul Light observes: "A recurring theme in making the government work is just who will lead the effort. Congress has clearly been ascendant in reform during the post-Watergate period, become the most frequent originator of reform ideas."[23] Congressional interest in management has increased just as the President's interest has declined. Various comprehensive management laws (e.g., Inspector General Act of 1978) have been initiated and carried through by Congress with the President simply reacting to proposals of others.

In the 1970s Congress strengthened its institutional capacity by up-grading the General Accounting Office (GAO) and creating both the Congressional Research Service and the Congressional Budget Office. Taken together, these congressionally oriented agencies constitute a potentially powerful instrument for affecting the management of the executive branch. A review of GAO reports and initiatives in the management field, for instance, reveal and highlight the increasingly defensive posture provided by OMB. This imbalance of authority and resources, however, is not necessarily a positive factor in the overall management equation and it is this imbalance that advocates argue is being addressed in the proposal for an OFM.

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[22](...continued)
HUD Diefendorfer stated: "OMB's review of HUD's budget and programs is handled primarily in one budget branch of five or six examiners. That is presently [1990}. I think during the period between 1982 and 1988 it was about four or four-and-a-half on average people in that branch. This is a very heavy workload for five or six people. The staff can deal with aggregate program data and address major budget policy issues, but not much more." U.S. Congress, Senate, Committee on Banking, Housing and Urban Affairs, *HUD/MOD Rehab Investigation: Final Report and Recommendations*, Comm. Prt. 124, 101st Congress, 2nd session (Washington: GPO, 1990), p. 135. Ronald C. Moe, "The HUD Scandal and the Case for an OFM," *Public Administration Review*, 51(July/August 1991): 298-307.

[23] Light, *Tides of Reform*, p. 208. Light provides a supporting chart pointing to shifts in institutional balance between Congress and the President in the pre-1974 and post-1974 periods.

Leveling the Playing Field

Why have recent Presidents retreated from their management responsibilities? In addition to the larger philosophical issues raised by the heroic vision of a politically-centered presidency,[24] recent Presidents seem to have been influenced as well by other, less heroic, factors in their decision to remain one step removed from executive branch management. First, and possibly foremost, Presidents and their aides perceive little political advantage accruing from their managerial role. Presidents are not elected for their managerial skills and assume that most of the government pretty much moves of its own volition without their active leadership. White House aides are quick to point out that the costs of managerial improvements tend to be immediate while the benefits tend to be in the future, in someone else's administration.

Management is not a field that interests most incumbent Presidents as it involves both abstract theory and detailed application. President seek not so much to manage the executive branch through properly conceptualized management laws and trained professional managers as to control government through short-term political appointees. For the most part, political appointees are inexperienced as governmental managers, often uninformed on the substance of their subject field, and tend to pursue their own agendas. They are expected to be loyal to the Administration in power, rather than committed to their agency and its programs. Attempting to initiate and maintain a capacity-building management strategy with deep levels of political appointees, whose tenure is likely to be short (often quite short) and whose career objectives may lie outside the agency and generally outside the government is likely to be an exercise in frustration

Writing in 1989 on the subject of political appointments and their impact on management,, the National Commission on the Public Service (Volcker Commission, after its chairman, Paul A. Volcker), concluded that the total number of presidential appointees was excessive and counterproductive to the ability of the President to meet his administrative responsibilities.[25]

The utility of this politically appointed management cadre to the institutional presidency and the executive branch generally is problematical at best. Paul Light recently observed that the "thickening" of leadership ranks in the federal government,

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[24] Richard Neustadt, *Presidential Power: The Politics of Leadership* (New York: John Wiley and Sons, 1960).

[25] The Volcker Commission concluded: "[The] growth in recent years in the number of presidential appointees, whether those subject to Senate confirmation, noncareer senior executives, or personal and confidential assistants, should be curtailed. Although a reduction in the total number of presidential appointees must be based on a position-by-position assessment, the Commission is confident that a substantial cut is possible, and believes a cut from the current 3,000 to no more than 2,000 is a reasonable target.... The mere size of the political turnover almost guarantees management gaps and discontinuities, while the best of the career professionals will leave government if they do not have the challenging opportunities at the sub-cabinet level." National Commission on the Public Service, *Leadership for America: Rebuilding the Public Service* (Washington: National Commission on the Public Service, 1989), p. 7.

by which he means the growth in layers of management in departments, ill serves the President and the nation. "Leadership is not measured by the number of people the President brings into office or the number of helpers at the top and middle of government."[26]

The presidency as an institution has and retains its capacity to protect its interests on political matters. This is not the case, however, with respect to matters of executive management.[27] The contemporary presidency has been steadily losing its capacity to lead the executive branch on a day-to-day basis, in large measure because of the absence of a supportive institutional presence to project and protect the President's interests in government operations. It is not enough for management purposes to rely on the budget process with its short-term deadlines and spending biases. Nor can ad-hoc groups tied to some unit within the Executive Office (e.g., National Performance Review; President's Management Council) substitute for permanent management leadership, properly defined and understood. The challenge, however, is not only how best to equip the President with the institutional support he needs, but to convince Presidents that they need such institutional support.

Conclusion .

The contemporary President, just as much as George Washington, is chief manager of the executive branch and cannot escape judgment regarding that stewardship. His choice is not whether to manage; but how to manage. Whether by intention or neglect, recent Presidents have, arguably, been ineffective managers, and the negative results have been cumulative. Presidents need to recognize anew the distinctive character of their constitutional responsibilities to insure that the laws are faithfully executed.

The foremost tool by which a President can manage and hold accountable the world's most complex social system is through high quality, conceptually sound, general management laws and their administration by the current OMB or by an OFM as proposed in this legislation.

To build a competent government requires a long-term commitment, one lasting over several presidencies and one transcending partisanship and political philosophy. Such a commitment can be met only with strong institutional support, the kind of support that advocates of an OFM believe to be possible. There is nothing romantic about the desire for competent government. Competent government is simply a necessity if the United States is to retain its pre-eminent status into the twenty-first century.

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[26] Paul Light, *Thickening Government: Federal Hierarchy and the Diffusion of Accountability* (Washington: The Brookings Institution, 1995), pp. 181-82.

[27] Ronald C. Moe, "At Risk: The President's Role as Chief Manager," to appear in *The Managerial Presidency*, 2nd ed., James Pfiffner, ed. (To be published by Texas A&M University Press, 1998).

Mr. HORN. I now yield 15 minutes to the ranking minority member for questioning of the witnesses.

Mr. KUCINICH. Thank you, Mr. Chairman.

I would like my first question to go to Mr. Mihm.

You, in your testimony, talked about the inability to account for billions of dollars in Federal property. Now however, since we are essentially talking about an idea that would cause the functions of OMB to be split, how would that affect that particular problem?

Mr. MIHM. Let me first agree with what I think is the thesis of your question, sir, and that is that the fundamental responsibility for management is in the agencies. Agency managers are responsible for the management within their own agencies. And so the problem of the lack of audited financial statements is not fundamentally an OMB responsibility nor would it be an Office of Federal Management responsibility.

Our point in continuing to look at the problems with agencies' audited financial statements is to underscore that pressing management issues exist. Financial management, information technology and the other concerns that we present would exist irrespective of the organizational arrangement. It is not something—we don't want to imply that if you go to an——

Mr. KUCINICH. So the GAO takes no position on what structure is more efficient?

Mr. MIHM. No, we haven't done the body of work that would allow us to say one structure is more efficient than the other. Rather, we focused on what the factors are that would have to be present irrespective of which organizational structure you use. Those factors were the ones outlined in our testimony. Things like top management support. You would have to find some way of linking up to the budget. You would have to look for some way of—well, you would have to have continued congressional commitment. Working through interagency groups would be a key to success as well.

Mr. KUCINICH. Mr. Posner.

Mr. POSNER. If I could just add, one of the things that kind of humbles us in a way in prescribing organizational design is that OMB, for some years before the 1990's, had a separate branch on financial management where they pushed some of these issues; and that branch, frankly, was fairly disappointing in pursuing an effective financial management reform agenda. They did not have the support to pursue audited financial statements. They were not supportive of congressional initiatives in this area; and we were very disappointed, in the 1980's, for example, about that.

That turned around in 1990 when Congress passed the CFO act and created the Office of Financial Management in OMB. There was a leadership team that emerged in OMB that was committed to these initiatives, and we have made some progress partly as a result of that and as a result of the congressional intensity and interest in this problem.

This reinforces what Mr. Mihm said that all of these other factors have got to be in line for an organizational design to work effectively. That's the point.

Mr. KUCINICH. Dr. McMurtry, as I'm listening to all of this testimony today, there are a few things that occurred to me. In the physical sciences there is such a thing as an implicate order in which certain structures are inherent or embedded throughout the entire structure. There is a holographic theory, if you will, about how one wave can represent an entire interference pattern.

What I am wondering, speaking of the management functions of government, isn't it true that management is implicate in budget and budget is implicate in management, no matter what systems you set up? You can divide them, you can merge them, you can make them simultaneous, you can bifurcate them, but the fact is that it is—basically, they are doing many of the same functions whether they like it or not?

Ms. MCMURTRY. You are suggesting that, because of overlapping relationships between the two, that, in some sense, they are inseparable ultimately? I didn't follow all your analogies.

Mr. KUCINICH. I am suggesting that, but I am also suggesting that, simultaneously, you cannot divorce budget from management and management from budget. That if you were to have a budget without management, you lose money; and if you were to have management without a budget, you can't keep track of the money.

So when you are talking about the Federal Government, what I am interested in your response, both from a theoretical construct and a practical application, how do you make this leap to separate the two? I'm just curious how that could be done without making some inherent disconnect which degrades the function of both?

Ms. MCMURTRY. Clearly, over the years, there have been various ways of trying to package the interrelationships. I certainly would not want to suggest that it would be possible to separate them completely. I think the testimony of various witnesses this morning suggests that there would be continuing interrelationships whether you establish a separate office or whether you retain the basic structure at present, with more minor modifications.

Mr. KUCINICH. So if there is a separate office established—and, again, I am just listening to this for the first time and I have a great respect for Mr. Horn and his views—if you establish this separate office, there is still going to be an overlap, is there not?

Ms. MCMURTRY. There is going to be some overlap, I think, of the work to be done because, as you say, there are interrelationships between budget and management. However, this is seen in various other areas of the government; yet we have separate Cabinet departments devoted to particular policy areas, even though we also need to have interagency councils with broader perspectives to address crosscutting issues and problems.

Mr. KUCINICH. I am interested in a moment, Mr. Mihm, because I do want to ask you a similar question.

Some things work well on paper and in theory; and in practice there are other things that come in, intervening variables if you will, that are not easily contemplated in design. Politics, for example. There are a number of these structures that can work well until you bring politics into a management structure, and then suddenly the structure changes. You put politics into a budget structure, things disappear. One day, whole structures can suddenly be demanded, be put into place. It changes the dynamic relationship between management and budget.

I am just wondering—why I think this is very important to consider what the respective roles are of what OMB does to look at the history of how it was created and why it was created, I'm just wondering, as we weigh what appears to be divisible functions of management and budget, if those divisions aren't really more theoretical than practical.

Mr. RELYEA. May I respond to you this way? I think if there is one thing that we struggled with and one thing that leapt out of this historical review is that there are various kinds of management. If anything, for BOB/OMB, the trucks would back up and dump more and more different types of management on them over the years. Administrative management, as the term is often used, means what my colleague, Dr. Moe, is referring to where it is always pyramiding management so that the President is at the top. He's the overall manager of the executive branch.

A little different kind of management might be intergovernmental management. And here I think is a point that you're trying to get at. For a management agency simply to deal with its sister agencies at the Federal level might not be adequate when, in fact, it is the money that we now are often allocating to the State or local level for administration and it might escape the attention or the control of a purely management type of agency. So, yes, there you want management and budget tied together. Follow the money, as it were.

Mr. KUCINICH. And as you follow the money, isn't it true that important aspects of many reform agendas are inherently budgetary in nature?

Mr. RELYEA. Sure, they can be. They certainly can be. And I think to come full circle——

Mr. KUCINICH. The cost of government operations. If you provide financial flexibility to permit resources to be used more effectively, financing things like that?

Mr. RELYEA. And, as I say, you come full circle. Congress is going to follow the money in its oversight capacity of making certain that things are working properly, too. It is a check on management. So, again——

Mr. KUCINICH. Would that be true with respect to the Department of Defense?

I have a question for Mr. Moe here. I actually appreciated very much your testimony about the difference between the public and the private sectors' inherent differences. I think that much of what you have written in that regard ought to be widely read by the devotees of the theory that says that government ought to be run like a business. Because, while that sounds fine in practice, where we use the term business as a euphemism, in fact, there are constitutional requirements in government and certain regulatory frameworks which do not fit well into a corporate setting.

That having been said, how do you divorce political considerations from what I think would be—you know, this wonderful schematic that you would propose?

Mr. MOE. As one who starts from the premise that you can organizationally distinguish between budgetary and management issues, my comment on the distinction you are bringing up is this: The purpose of government management is to implement the laws passed by Congress, not to maximize the equity return to owners. And increasingly what management does, like with the Government Corporation Control Act, if we had somewhere to do it we wouldn't be creating new little government corporations under little laws that you only hear about after the fact.

Increasingly, agencies are being required to raise more money on their own, and they want to use it themselves to bypass the appropriations process. In other words, there is a whole lot of disaggregation going on in the government. We don't have principles that——

Mr. KUCINICH. Disaggregation equals lack of accountability?

Mr. MOE. Absolutely. And that's their goal.

Let me explain by analogy. When the National Performance Review types came in, they said that the distinction is not valid. They believed that government and business are alike and should be run like General Electric.

But they didn't do one interesting thing. They didn't put what they called management improvement into OMB. They took it across the street into a separate nonstatutory office. They said, we don't want anything to do with OMB managers, although they couldn't find many management generalists at OMB, but they did look. And they said, we don't want it connected with the budget. Because if we have it connected with the budget, we are not going to get anything done. They already had a separate Office of Federal Management, but it wasn't official.

Mr. KUCINICH. I am very intrigued by your presentation in that, and I understand what you say, the meaning of what—when you say management is institutionally separate from the budget, I think that is part of—is that part of your thesis?

Mr. MOE. Yes, budget is one of the elements of management. It may be the single most important—maybe. But the fact is, the culture that is created to have a proper Office of Budget is one in which short-term goals are what it is supposed to be about. On the other hand, a management office, properly designed, is a capacity-building, long-term issue. When we want 10-year improvement through GPRA and we give it to an office in which there is high turnover and really no one reading the reports in any depth except GAO, then you have a situation——

Mr. KUCINICH. Sometimes we read things, too. I am going to bet money that Mr. Horn reads all of them.

Mr. MOE. Well, that is possible. He is the exception to many of the generalizations that we offer.

But what I'm saying is that the distinctions between the two are real. They come out in the form of the laws. They come out in the form of the culture that is created.

The fact that there are two separate offices, I would argue, increases the likelihood of a quality resolution of any issue because both offices serve the President. And the President can say, well, what do you think on this and get the budget view, what do you think on the management; and he is much better informed than if the only person he talks to is a budget-oriented person. Because we always put a budget-oriented person in charge of OMB. That is their primary responsibility.

So, anyway, I think the offices can be split. I think the kind of consultation and the advice that the President needs will be better served by two offices than one.

Mr. KUCINICH. Again, I am interested in your testimony. Maybe translated into something that would be more pedestrian, in a way your paradigm would be like dual erector sets where things are put in place and you have a structure that actually you can identify every 2 or 4 years as being that structure.

I think a more realistic model might be that of Silly Putty, and it keeps changing and being re-formed by the political process.

Mr. MOE. You will notice in the proposal that the chairman distributed as a preliminary draft bill that, except for the two top positions which would be political appointees, the six associate directors and other offices would be career people. Now, you can still bring someone in from the outside, but those are career positions; and it is anticipated, particularly when you have a transition from one party to another, that that's where the continuity will reside.

Mr. KUCINICH. I remember—I will wrap this up, Mr. Chairman, but I remember having a conversation with President Carter years ago; and he was talking about being President, about the difficulty of his job was giving a decision and passing it through the chain of command. And sometimes what he wanted to get done couldn't get done, and he was the President of the United States.

So what occurs to me in terms of what you're advocating—and I see much of it meritorious, conceptually—is that when you put something in place and say that's going to stay in place, there's a little whiff of something that's not so democratic about that. And that, even though you are a strong adherent of democratic principles, I can see from your testimony.

So, again, as we talk about these concepts we also have to be aware that government is a dynamic organization; and, as such, that dynamic can change according to the will of the people. Because, even above the President, the people are really at the top of that apex, just by the way.

Mr. HORN. Very well put.

I am yielding myself 15 minutes. I know the next panel will get into this in depth, but I would like any ideas you have of where management either pushed out budget in its history or did budget primarily push out management?

Do you want to go down the line? Do you have any great examples of that historically?

Mr. RELYEA. My recollection is, from our historical review, that it was very clear by 1950 that budget was dominant; and it remained that way for quite a while due to a variety of factors such as Presidents who didn't give a hoot about management or directors of the Bureau who were much more economically inclined—they were from the banking world and so forth. So management largely just drifted away. It tried to come back in such guises as the buzz phrases like PPBS and this type of thing, but never quite made it.

Mr. HORN. OK, you have given an example.

Dr. McMurtry, do you have an example to give?

Ms. MCMURTRY. I think that, particularly in the decade of the 1980's and early 1990's, there was a preoccupation in Congress and in the White House with the deficit problem that tended to overwhelm other matters, including some budgetary concerns as well as management. I think that, with changes for the better, the deficit situation just in the last year or two, this could create a climate to allow for attention to management, whatever the structure, as well as to other budgetary issues that perhaps deserve more attention than they received when the overriding concern was reducing the deficit. So in the recent past, I would point to that.

Mr. HORN. Mr. Mihm.

Mr. MIHM. I'm going to pick one of the issues, sir, that was highlighted in a letter I recently sent over to you and Mr. Kucinich; and that is dealing with OMB's circular A–76, contracting out. There has been very little activity in Federal agencies, civilian agencies in recent years. In fact, 9 or 10 agencies haven't had any FTE's studied over the last half dozen or so years. This is an example of an issue that, if it is not at the forefront of the budget agenda, has a tendency to be subsumed and not get the attention that it deserves.

Mr. HORN. Mr. Posner.

Mr. POSNER. I'll bring up one that I think probably is a success story, the OMB Capital Planning Capital Programming Guide, where I think they melded together some congressional mandates from the Federal Acquisition Reform Act and the Clinger-Cohen Act to create a guide that was very proactive. Unlike State and local governments, the Federal agencies had never prepared a capital acquisition plan; and now they are preparing a 5-year capital acquisition plan for the first time. I think that shows what can happen in the intersection of budget and management in a fairly creative way.

Mr. HORN. Dr. Moe, besides the examples that you gave, do you have any other examples you would like to tell us where one pushed out the other?

Mr. MOE. I'm not sure that anyone at OMB ever sat down and said, "I want to push out management." But management is not part of the OMB culture. The problem is that the right questions are rarely asked.

Mr. KUCINICH. I can think of a lot of labor unions that have done that.

Mr. MOE. What I have to suggest to you is that the culture for proper management of the Federal Government, oddly enough, has to be basically a legal culture. It is not run by economic axioms out of a business school.

As you proliferate these general laws—and this is what every agency—you give this to agency heads. OMB, I might add, has no such list. And you say, these are the laws you have to follow. This is what you have to do for starters.

Well, it's very impressive. I think we could do a lot of work over a period of years with an OFM saying: "Look, you now have an opportunity to come up here and redesign these laws for the future. Not as penalty laws, not as adding still another report, but as a creative instrument for the fulfillment of our administrative requirements."

So the answer is, I don't even think it crosses their radar screen very often. And they would, of course, argue, yes, management has never been better. You will get all of that, and I am just saying empirically that is not true.

Mr. HORN. OK. Mr. Mihm, Mr. Posner, what I am curious about—is the General Accounting Office Controller Generals have done a very fine job in their so-called high-risk series. You have also had a very fine best-practices series. When did that start? 1970, 1975, 1980? Or is it mostly the 1990's?

Mr. POSNER. I think it was mostly the 1990's. The late 1980's is when I believe the high risk started.

Mr. HORN. Under Mr. Boucher, essentially.

Did anybody in OMB ever run with those high risk or best practices? What did you see happen to it after you made those suggestions to Congress?

Mr. POSNER. Well, this goes back a ways. I think it was in the late 1980's that OMB had their own high-risk list that was quite extensive and were trying to get agencies to focus on a lot of the same issues. And I think it has kind of been over the years somewhat uneven in their focus.

About 2 years ago they didn't have a high risk. They decided to discontinue that high risk program. Now they have something in the governmentwide performance plan that they call priority management objectives—they have 11 governmentwide and 11 agency-specific that track, to a great extent, the high-risk initiatives we have talked about.

Mr. MIHM. I would add that, in terms of the best practices work, in many cases OMB has adopted the best practices that we have identified as guidance or criteria for agencies. I know OMB has done that in the area where I focus most of my time on the Results Act.

More directly and specifically, they've done it, of course, in the area of information technology. We also worked very closely, as Paul mentioned earlier, with OMB on capital planning. Therefore, a great deal of our best practice work has been embodied in OMB's guidance to agencies.

Mr. HORN. How do you think they have done with the year 2000 issue as a management problem? Are you aware?

Mr. MIHM. I could start off on that.

Mr. HORN. Will the clerk note the silence? It's unbelievable.

I mean, just tell us.

Mr. MIHM. Silence from OMB I think in the early years, too, sir, was part of the problem. As I mentioned in my opening statement, we are now beginning to see OMB shed some of its initial optimism about year 2000 compliance.

I know that in a number of hearings that you've had and in other public pronouncements made as recently as a few months ago, OMB was quite confident—initially. OMB was confident it wasn't a big problem and then OMB was confident that agencies would be able to lick the problem. Now I think there's a real acknowledgment on their part that we're beyond the problem stage and at the point of recognizing that all mission-critical systems are not going to be able to be year 2000 compliant. We need to start doing some triage to make sure that at least those systems that most directly affect the health and safety of the American people are year 2000 compliant. I think it's a signal of the administration's at least growing awareness of this as the recent appointment of Mr. Koskinen's group that will be looking to work with agencies quite directly in bringing along the agencies.

Mr. HORN. This committee began that issue in April 1996. We began with quarterly reports.

When Dr. Raines became Director of OMB, we were delighted that he took over the quarterly reports, and we worked together. That was the first breath of fresh air I had found in OMB on this, someone that cared as director.

Now what we see is the first action the President took, despite letters from the chairman and ranking minority member a long time ago, was in February of this year, and the first time we got a real human body as coordinator of this effort, a very fine, able person in, Mr. Koskinen, was in March of this year. Seven quarters are left to deal with a massive problem that will cost billions more than their $2.3 billion recommendation that we prod out of them through the appropriations route for the fiscal year we're in. Now they've changed that and moved it up.

They had no apparatus to really deal with this on a management basis. This is a management problem, as we've said from day one, not a technological problem. It's a management problem in how you deal with this.

So I was just curious when you said it gave them some praise, when I find it unbelievable when one knows what the problem is in April 1996 and does nothing until February 1998. That strikes me as a strange way to run a government.

Mr. MIHM. OMB was late getting to the issue; and, to the extent that we are complimentary, it's in the efforts that OMB has taken in recent months. I would quite agree with you that that was at the urging of Congress. As the year 2000 has come closer and the scope of the work that's ahead of us has become clearer, OMB has, as I mentioned, shed their optimism and they now seem to be getting together.

Mr. HORN. A major effect on our economy and, major effect on the stock markets. I hear constantly people are going to take their money out or people are not going to fly and all this stuff.

And you've got a lot of doomsayers. I'm not one of them. I think we can solve the problem.

But we have to do more than quarterly reports. We have to organize, and I know Mr. Koskinen has gone around to talk to Cabinet officers, deputy secretaries, the chief operating officer. I think that's wonderful. It should have been done 2 years before, and even then we'd be lucky just because things take time to get done.

Mr. POSNER. This gets to what Mr. Moe said before. One of the functions of institutionalized management presence, wherever it lies—GAO, this subcommittee, or in the executive office—is early warning. We've tried to take that on, and, frankly, we would have liked to have seen more rapid progress and recognition.

Mr. HORN. Yes, I suggested that early warning idea to President Nixon in 1969. Because, you know, during the Second World War the Bureau of the Budget had three field offices in the United States. Congress readily scooped them up and took it away from them after the Second World War, maybe during it.

I'm going to yield to Dr. Ink on that bit of fact, and exactly what I called it was an early warning system.

The President of the United States should know from the—now they did a little of it in the sense of these regional councils and all that. I don't regard that as a very good keep-your-eyes-open operation. At least I wasn't impressed by it. But the President needs to know when something dumb is being done in the Federal executive branch so he can deal with it.

I finally got veterans paid, I remember. I was then a university president, sent the President a telegram, and, boy, he hit the ceiling with his staff, with the VA administrator—told them, if you don't solve it within 24 hours you're out of here. And we got some rapid action.

We had 3,000 veterans that never got their check on my campus. That was known within the bureaucracy. Nothing percolated up the hierarchy.

That was the same thing we had in the Transportation Department of the year 2000. An outstanding woman professional says, here's what we've got to do by the year 2000. Nobody listened to her. Nobody put her thought into the management tree of the Department of Transportation so the Secretary could have said, "Hey, wait a minute." Besides the Federal Highway Administration, do we have any other problems here, like would it affect the Federal Aviation Administration? Bingo. You know all the lights should have been jumping all around the Secretary's office.

This was under Bush. Nobody was organized to get management questions to the Secretary, the Chief Operating Officer, or the Deputy or Under Secretary. That disturbs me, and I think it should disturb any President. Heaven knows, it should disturb a Cabinet officer that the President thinks is keeping that department in tune so at least he won't get nasty complaints about it not working.

I guess that's what I'm wondering, about how many of the executive agencies have listened to GAO on high-risk best practices?

Now the other thing I'd like to know from your historical review by our scholars here, we had in the management group in its early history—the '30s, '40s, and '50s, in particular—we had primarily career servants in these jobs that a new President—didn't matter if they were Republican or Democrat, liberal or conservative—could draw on these people as professionals. Now when did that type of career person stop? And what was BOB and OMB? What's your understanding of that history?

Mr. RELYEA. My general understanding is that politization occurred. That is that leadership in the management area began to shift, in the 1960s.

Mr. HORN. What parts of the 1960's?

Mr. RELYEA. In the Kennedy years.

Mr. HORN. The Kennedy years.

Mr. RELYEA. Yeah, Kennedy, Johnson. I'm not—as I sit here, I'm not exactly certain why, but we have had across Government, as Presidents came and went, this politicization pressure downward on agency leadership. It may have been nothing more than that. It has also led to—you heard our comment building on Paul Light's work. I think it has also led to this expansion of political leadership in the middle management area.

Mr. HORN. How about it, Dr. Moe?

Mr. MOE. It has been a long term, so you can't pinpoint it exactly, but I would contend that it was the decision to make third level at OMB the pad to be political appointees. They tend to be young people. It's not an end of their Federal career at all. They tend to be very young people, inexperienced to begin with, and then that's viewed as a training ground for them to leave.

You know, it's very hard to be concerned about your year 2000 problem which is an excellent example of what management does that budget just can't even put on their radar screen is the fact that you have to have in top positions in an organization people who will remain there when the consequences of their decisions are made. So that they have to say, I'm probably going to be here in 5 years. If I don't have a 2000, I'm out of luck.

Today, we have perpetual turnover of short termers at the top, all of whom's goal appears to be: "Not on my watch." And so Congress has to become a co-manager and say, yes, on your watch this is going to happen. And one of the purposes of an OFM is to provide at least a modest chance that the kinds of issues that occupy your attention, such as the year 2000 problem, will be addressed by people who have a long-term interest in solving them.

Mr. HORN. I think you have some pretty good wisdom on that, and I know we'll hear it from the next panel.

Any views of GAO on that question? If you watched—you two aren't old enough really to have gone through—I happen to remember the '40s, '50s and '60s, and so any wisdom you've heard around the water cooler at GAO about what the old days were like? Let's face it, Elmer Staats came over to be a great Comptroller General, and he was Deputy Director at BOB, and he knew what was going on in the government when he came over there.

Mr. POSNER. I wish—I'm probably older than I look, but I would say that, over the years, one thing I've seen is the emergence of GAO as kind of a principal institutional source of knowledge about these management policies. Whether it has anything to do with OMB's rise or fall, I think it has probably more to do with Congress' growing assertiveness about these problems and increasing relevance of these problems to the American people.

From our standpoint I think it has been quite gratifying that we have been able to do things like best-practices guides, like Chris did one on the executive guide on GPRA, that thousands of copies get distributed and used by the Federal agencies. Because we've really got a corner on the market, if you will, on that kind of analysis.

Mr. HORN. Do you have anything to add?

Mr. MIHM. I was just going to add that, from my examination of OMB's history, Mr. Chairman, that I think the reorganization in 1982 that had led to the elimination of the Organization and Special Projects Division—which took out OMB's institution or central unit that did crosscutting analysis of government organization—was a bit of a loss. OMB needs to think about how it is going to rebuild that capacity.

Mr. HORN. Well, I thank each one of you. You've had some wonderful background presentations here that I think all of my colleagues, not only on the committee, but I hope in the Congress, will at least thumb through them over the years and learn some of that history which I think is very relevant to a discussion in this area.

So I thank you all for coming, and we're going to now move to panel two.

OK, we've got Dr. Ink, we have Mr. Wright, we have Dr. Light, and we have Professor Gilmour.

Gentleman if you'll raise your right hands.

[Witnesses sworn.]

Mr. HORN. All four have affirmed the oath.

We will begin with Dwight Ink, known to most in this room by his extensive background in public administration, president emeritus of the Institute of Public Administration, formerly Assistant Director for Executive Management at OMB, and numerous other jobs under various Presidents of both parties.

Dr. Ink.

STATEMENTS OF DWIGHT A. INK, PRESIDENT EMERITUS, INSTITUTE OF PUBLIC ADMINISTRATION, AND FORMERLY ASSISTANT DIRECTOR FOR EXECUTIVE MANAGEMENT, BUREAU OF THE BUDGET AND OFFICE OF MANAGEMENT AND BUDGET; JOSEPH R. WRIGHT, CHAIRMAN AND CEO, AMTEC INC., AND FORMERLY DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET; PAUL C. LIGHT, DIRECTOR, PUBLIC POLICY PROGRAM, THE PEW CHARITABLE TRUST, AND FORMERLY SENATE GOVERNMENTAL AFFAIRS STAFF; AND ROBERT S. GILMOUR, DIRECTOR, INSTITUTE OF PUBLIC AND URBAN AFFAIRS, UNIVERSITY OF CONNECTICUT, AND FORMERLY SENATE GOVERNMENTAL AFFAIRS STAFF

Mr. INK. Thank you, Mr. Chairman and members of the committee.

I am pleased to testify on the question of whether an Office of Federal Management should be established. This step, I believe, would improve the operation of the Federal Government, is badly needed, and is long overdue.

Over the years, we have seen a succession of reorganizations in the former Bureau of the Budget and the Office of Management and Budget designed to make the management arm of the President more effective. None of these has resulted in really meeting the needs of the President and the public.

My comments represent my own personal views. They are based in part on my experience in heading several bureaus and agencies responsible for both management and budget, part on having chaired several Presidential task forces on management reform, and part on having headed the Office of Executive Management in the former Bureau of the Budget and also heading most of the management functions of the Office of Management and Budget after first having had the lead executive office role in urging Congress to agree to its establishment. This was a mistake because the OMB has been just as dominated by the budget pressures as was the old Bureau of the Budget and at times even more so.

In my written testimony I list several reasons I believe the budget focus limits the extent to which OMB can provide the management capability the President and Congress need.

First, the OMB leadership is increasingly preoccupied with the complexities of the budget and related economic issues, leaving little time for the management role. An OFM would be free of this problem and would give the President an opportunity to place management leadership in men and women whose experience is in management, not economics.

Second, the budget fosters tunnel vision, which makes it difficult for OMB to address the crosscutting issues which affect a large number of departments, agencies, and laws that Mr. Moe has mentioned. In some instances, because OMB does have very able and dedicated men and women, it has been able to overcome this constraint, as in the recent interagency planning for a national drug control strategy which I think is good. But the fact that from time to time they are able to overcome these structural difficulties of OMB is not a reason for failing to greatly increase their management potential by removing these obstacles through an OFM.

Third, the 12-month budget cycle tends to give undue weight to annual budget targets as compared with long-term investments that provide more economies over the long run, thereby contributing to difficulties such as developing the type of computer system and modernization made possible through other technological improvements that are so badly needed to modernize government operations.

The domination of budget issues has contributed to weakening agency capacities to prevent waste, fraud, and abuse. I recall how this factor contributed directly to the disasters that befell HUD over a period of years and the furniture scandals in GSA.

We should dispel the myth, and it is a myth, that the management staff and Executive Office of the President must have the leverage of the budget in order to gain the attention of the agencies.

It was my experience, as was also true of Harold Seidman, my predecessor, that the more we could distance our staff from the budget process the greater our effectiveness, and the greater our impact in the vast majority of cases, including financial management.

Several responsibilities I found useful in heading the earlier management staff and which should be incorporated in an OFM include:

One, drafting and coordinating the President's Executive orders, very important; two, coordinating legislation dealing with organization and management; three, drafting and clearing the President's reorganization plans; four, participation in the daily planning meetings of the top White House staff; five, participation in the design of new programs to ensure their workability; six, assigning OFM staff to ensure coordination and expedited action by the field operations of various agencies. This field focus of an office of management is very important. Seven, greater attention to helping agencies strengthen their own capacity for effective management, as Mr. Moe has mentioned; eight, monitoring of agency performance to address problems at an early stage. If this early warning system had been retained, I believe wewould have headed off most of the later HUD and S&L debacles. Nine, leadership in streamlining intergovernmental operations; ten, tracking followup of GAO findings and congressional requests; and, eleven, an outreach to enable the Federal Government to approach program and administrative management from the perspective of States, communities, businessmen, and families, not just from the traditional perspective of Washington.

Mr. Chairman, without at least restoring these types of functions to an OFM and appointing managerial experienced leadership, an OFM would not be effective. With them included with the enormous advantage—and it would be an enormous advantage—of an independent office, this would equip the President far better than we can today.

I'd be happy to respond to questions.

Mr. HORN. Thank you very much for that very precise statement.

[The prepared statement of Mr. Ink follows:]

Mr. Chairman and members of the Committee:

I am pleased to have this opportunity to testify on the question of whether an Office of Management should be established. I have had the privilege of testifying on numerous management issues since my first hearing in 1948, but none has dealt with a proposal which, in my judgment, has as much potential for improving the operation of the federal government as would the establishment of an Office of Federal Management in the Executive Office of the President. I believe this step is long overdue.

Over the years we have seen a number of reorganizations in the former Bureau of the Budget and the Office of Management and Budget designed to make the management arm of the President more effective. Particularly disappointing has been those reorganizations which have combined the most of the management staff with the budget staff in. These actions have improved the sensitivity of resource allocation work to management considerations for a limited time, but they robbed the BOB and OMB of their ability to address the more fundamental management problems. The 1973 consolidation, for example, left no OMB capacity to offset the budget driven decisions to veto the GSA plans to reform its contract management, thereby contributing directly to the furniture scandals that erupted.

None of the numerous reorganizations has resulted in fully meeting the needs of the President, or the expectations of congress, and only rarely have these potentials even been approached. Alan Dean often points out that if after losing a horse race, the trainer is changed and the horse loses again, the jockey is then changed and the horse loses again, the next race is on a muddy field and the horse still loses, it is logical to conclude that the owner needs a different horse. We need a different organization to provide the federal government with the type of management leadership required to meet today's needs.

My comments are based in part on my experience in heading several bureaus and agencies over the years, in part on having chaired several presidential task forces striving to bring about reforms, and in part on having headed the Office of Executive Management (EOM), which was the management portion of the Bureau of the Budget (BOB). I was also the first to head most of the management functions of the Office of Management and Budget (OMB) which replaced BOB. As a result, I was in a unique position to assess the strengths and weaknesses of OMB compared to BOB, as well as the limitations of both. Our history of reorganizing these two agencies to strengthen management is not encouraging.

As head of the OEM, I was assigned the lead role in urging Congress to agree to the establishment of the OMB, an approach I began to regard as a mistake within months after it came into being. As in the case of BOB, and contrary to my hopes at the time it was established, the management role in OMB has been far too dominated by the budget process. This is especially true since the OMB 2000 reorganization which meshed most of the OMB budget and management personnel together. For over 25 years I have believed that the management functions should be removed from OMB and placed in a separate Office of Federal Management.

Virtually every one of my predecessors in BOB, dating back to the early 1940s, as well as most of my successors in the chief management post at OMB, share this view. In 1983 I had the opportunity to chair a panel of the National Academy of Public Administration on the state of government management. This panel was asked by federal departments and independent agencies to recommend ways in which to revitalize the federal government and simplify its operation. One of the principal panel recommendations was the establishment of an Office of Federal Management. My reasons for supporting an OFM are as follows:

Leadership Preoccupied with the Budget

With the passage of time, the federal budget has become more and more complicated. Programs have multiplied in number and increased in complexity as they are called upon to address issues that are intended to address domestic problems that are ever changing in a dynamic society. Today, the budget is intertwined with economic issues, many of which have both domestic and international components. The OMB leadership is necessarily caught up in a never ending series of budget related issues on which OMB is constantly in touch with the department and agency heads, many of which require presidential attention. Within this budget dominated pressure cooker, there is little time and energy left for the top OMB officials to address management issues. Further, because the budget is such a critical activity, the president understandingly looks for budget or economic experience in choosing OMB directors, not managerial knowledge or skills.

An Office of Federal Management would equip the President with top level management leadership highly qualified in the field of management. And they would be able to devote their full time and energy in making government work better.

The Budget Fosters Tunnel Vision

BOB and OMB have deservedly been given very high marks for having budget examiners (now members of resource management units) who are extremely talented. They are among the very best in government, and they function well under short timetables and extremely heavy pressures. However, the work of each examiner is focused largely on only a few programs which are closely related. They become thoroughly familiar with the budgetary impact of actions on those groups of programs. This serves the President well on matters relating to the budget and in assessing what program objectives can be achieved. Implementation of the Government Performance and Results Act is an important example where this program knowledge has been of great value in addition to the more traditional budget activities.

However, these examiners have little time or incentive to look in any depth at management problems in individual agencies or those which cut across organization lines. They are simply not equipped to provide leadership in developing approaches to the more significant management problems or see what works best for the government as a whole. Neither are they in a position to see the cumulative impact of either budget or management actions of the federal government on state and local governments or on families and individuals. This total burden is sometimes shocking in magnitude when it is revealed.

The reward system for examiners is based on how well they can pare the budgets in their assigned areas. As a result, the basic power structure of OMB, and most of the attention given to departmental operations, are channeled along the budgetary tunnels of the examiners. Crosscutting management issues are given far less attention than in earlier times.

In the last few years, for example, we have seen various types of proposals for government corporations, but , as Harold Seidman has testified before this Committee, there has been no consistent set of OMB criteria among the various proposals . He and Alan Dean have also expressed concern about the lack of consistency in the approaches advanced for performance based organizations. In recent years, little attention has been paid to the roles of field operations or headquarters-field relationships. Little effort has been devoted to how the thousands of field offices relate to state and local governments or private businesses impacted by government policies and actions.

Earlier, despite the fact that OMB had a stronger central management component than today, I found that this tunnel vision frequently delayed or even prevented us in OMB from undertaking needed reforms in the financial management systems of the government which are badly outdated.

Focus on the Annual Budget Cycle

Budget examiners are just as interested as anyone else, perhaps even more so, in the long term impact of current budget and management actions. But the inexorable pressure of meeting the budgetary targets of the budget year too often end up subordinating long term efficiencies to the demands of the current budget which often limit their focus to the 12 month budget year. Over the years, I found this 12 month budget priority a major handicap in working with Social Security and other agencies in designing and implementing major computer systems that were needed to better serve the public. It worked against investing in modern technology which required an initial investment of funds but would save money over a period of years. I should stress that this problem grew out of the guidelines within which examiners had to operate and not because of shortsightedness on the part of the examiners.

Budget Overrides Critical Management Needs

At times, the focus on meeting the budget targets prevents agencies from taking actions that are badly needed for better operating effectiveness or the prevention of waste and abuse. As one example, it contributed to the earlier consolidation of all auditors in the office of inspectors general in a number of agencies on the theory that having auditors in more than one organization component of a department is not cost effective. This has elevated minor cost efficiencies over the ability of departments to avoid waste and abuse through use of auditors by assistant secretaries for administration in the earlier roles of auditors in preventing such problems rather than focusing on ferreting out the reason for scandals once they have occurred. This shift from prevention to "catching the crook" after the damage occurred is one of a number reasons that HUD changed from a model department to one that was scandal ridden.

This preoccupation with budget considerations has often discouraged the maintenance of strong field offices which can better serve the public than can Washington, although I would agree that budgetary pressures have been useful in a few cases where small field offices were no longer needed as modes of communication and transportation permitted field consolidation.

Credibility of Management Leadership

The Office of Executive Management was established toward the end of the Johnson Administration and the directorship first filled when Nixon became president. As the director of this new office, I found that we could more easily undertake government wide management improvement and reform efforts on behalf of the president. Why was this so?

Although I was still a part of BOB, my office was perceived as having a greater measure of autonomy, thereby enabling it to distance itself from the budget process more than had been possible before. Although I participated in the BOB staff meetings and was subordinate to both the deputy director and the director of OMB, I found that the more my office could function independently of the budget operations, the greater our credibility with the agencies and the more effective we were. Initially, for example, I encountered suspicion and hostility from Secretary of Defense Mel Laird who viewed the new office as a new back door device of BOB to cut his budget. It was not until the secretary was convinced of our operational independence that we were invited in to help the secretary and his deputy, Dave Packard, with some of the more vexing management problems the department faced, assistance which Laird warmly praised as he left office.

Budget Leverage

This experience should help to dispel the myth that management staff in the Executive Office of the President must have the leverage of the budget to gain the attention of the agencies and have an impact. I see the budget as a crutch used by those who for one reason or another do not have other more positive means of gaining the cooperation of the agencies.

As we moved away from this budget crutch, I found other elements of our EOM role much more effective in our ability to provide management leadership on behalf of the President. . First, was our responsibility for the drafting of presidential executive orders, subject to legal review by the Department of Justice. Second, was the fact that the Office of Legislative Reference delegated to our Office of Executive Management the coordination of legislation dealing with organization and management. Third, our office drafted and coordinated clearance of the president's reorganization plans. Fourth, was the fact that I participated in the daily 7:30 White House planning meetings involving the key White House, OMB, CEA, and congressional office personnel. Fifth, was our participation in the design of new programs to help ensure their workability. Sixth, was our leadership role in establishing and sustaining various interagency groups. Seventh, was the attention we paid to the field where most of the federal employees are located, and most of the interface with the public takes place. We established regional councils and I assigned OEM individuals to spend roughly two thirds of their time in the field making sure that these councils expedited actions rather than serving as simply one more level in governmental process that were already too complex. The New Federalism streamlining, led by OEM, brought joint written commendations from all the Big Seven public interest groups representing state and local governments.

Eighth, was the extent to which we were able to secure agency cooperation through the professional competence of our staff. This also earned respect in Congress, where we were invited to testify many times and worked closely with the congress in much the same way Harold Seidman had previously done. I should also add that we were always available to the press, but preferred to stay out of the limelight, believing that the departments and agencies should be given the credit for their progress in advancing the president's agenda or implementing new legislation.

Ninth, and especially important, was our emphasis on assisting departments in strengthening their own capacity to manage their organizations and programs. Although we tried hard to move away from the unavoidable "control" characteristics of much of the budget process, we followed the progress of agencies closely, and reviewed major agency management problems with each department head or deputy. Had this type of agency management awareness been maintained by OMB in subsequent years, the HUD and S&L problems would have been addressed much more quickly with considerable savings in taxpayer money and less erosion of public confidence in government.

A summary of OMB management initiatives during its first years can be found in the 1996 book entitled *The Nixon Presidency* which contained a chapter called *Nixon's Version of Reinventing Government*. This Committee has several copies.

A decisive factor in this view that the leverage of the budget is not needed in most cases of management improvement or reform occurred in 1973 when most of the management functions of OMB were transferred to GSA rather than eliminating them. I would never have recommended transfer to an agency with so little political constituency as GSA, but to my surprise, we found we could then undertake certain government wide management efforts which were not possible while the functions were co-located with the budget in OMB. Under the leadership of John Lordan, for example, GSA was able to determine that between 25% and 35% of funds appropriated for a number of grant-in-aid programs were
gobbled up in overhead, a significant finding of considerable interest to our taxpayers. Yet for two years prior to the transfer of financial management from OMB to GSA, we had been unable to launch this project in OMB because of our inability to get the budget units to agree on the design of the project. Each budget group had a different concept, depending in part on their particular group of programs.

Downside of an OFM

Every reorganization has tradeoffs. Even the most persuasive cases for change need to recognize the downside of proposed changes. In the case of OFM, the greatest disadvantage I see is the fact that there are a number of areas in which coordination with the Office of Federal Budget will be required. GPRA is one example. Another example is any proposed reorganization which involves transfer of substantial authority from one department to another. In such cases, all the resources of the Executive Office of the President usually need to combine their efforts in support of the proposed change.

In recognition of this coordination need from time to time, I would include in the legislation a provision that the new OFB coordinate with OFM on those budget issues which have significant management implications, and that OFM coordinate with OFB on management and organization matters having a significant budget impact.

Conclusion

Much of the earlier BOB and OMB strength has eroded over the years, although they never attained the level of influence and effectiveness which I believe could be realized through an OFM. The current structure has, in my view, greatly handicapped able OMB management people, such as John Koskinen and others, in serving the President effectively. It is my understanding that at a later date this Committee will explore in greater depth what provisions should be included in any proposal for an Office of Federal Management. . When the Committee reaches that stage, I would urge most strongly that these earlier EOM roles be restored to the new Office of Federal Management if it is established. OFM has to develop linkages with groups outside Washington, and outside the federal government to better assess the effectiveness of government in serving the public and the ways in which government can ease burdens it places on our citizens. Otherwise, I see no point in having an OFM.

As with any organization, the effectiveness of an OFM depends heavily on the caliber and qualifications of its leadership. The legislation must stress the need for professional experience and qualifications. And I would hope that the Senate confirmation process would also emphasize this need I believe that private management experience would be very helpful, and prior government management experience essential.

It is important that the head of an OFM have access to the President when needed, but there would not be a need for the frequency of discussions with the President that other major components of the Executive Office of the President require.

As I indicated at the outset, I believe an OFM would be a very important step forward in improving the effectiveness of government and reducing the amount of waste and number of scandals which dismay taxpayers and undermine public confidence in government. I believe the modern presidency requires the management leadership which an OFM can provide, and I believe the Congress would also find it very helpful in carrying out both its legislative and oversight roles.

I would be happy to respond to questions.

Mr. HORN. Let me next go to Mr. Joseph Wright, who is chairman and CEO of AMTEC Incorporated and a former Director of the Office of Management and Budget.

Mr. WRIGHT. Thank you, Mr. Chairman. I'd like to submit my testimony for the record and just make a few comments, please.

Mr. HORN. It is automatic with all witnesses.

Mr. WRIGHT. First of all, I appreciate you bringing us together again with my friends, Mr. Ink, Light, and Gilmour. You have some old management war horses here at this table; we have been together a long time.

Unlike what one of the former witnesses said, not all the Program Associate Directors and the head of OMB were kids. I've spent 7 years there, and toward the end of it I was very old.

I was also the liaison with the Grace Commission at that time; and, as you recall, they recommended setting up an Office of Management. I disagreed with that, Mr. Chairman, at that time. As my testimony states, however, I believe that something should now be done.

But, I'm not so sure it's a reorganization only. I believe reorganization without changing the process by which the executive branch deals with not only itself but with the Congress is something that will result in numerous reports that the chairman will have to read but perhaps not a lot of change. So, therefore, I would like to discuss this in a wider context.

Management in the Government, I have found, is extraordinarily difficult. There is really no well-respected, governmentwide management process in place.

Let me give you three observations:

Of the processes that we have to manage the Federal Government, the budget process is probably one of the most well defined, as I would say the management process should become so. The budget process is not just the budget. It's policy communication from the agencies and the President to the Congress and back. It is centralized within the Office of Management and Budget to carry it out.

The congressional committee structure is organized to receive the communication, and that is very important, Mr. Chairman. With the management process you have the Governmental Affairs and Government Operations Committees. You don't have a committee structure across the board on your oversight committees to receive management information in an orderly way.

I would also say the tracking and disagreement resolution process of the budget process is in place and, while we may disagree with it, everybody knows the rules. We don't have that in the management process.

Next, congressional support over the years for management improvement has been unclear and sometimes inconsistent. We have a great deal of legislation dealing with only parts of the management process that has been passed over the years, but very seldom has an entire management process been put in place that brings all this legislation, regulation, authorities, and resources together.

Next, there are restrictions that the Congress actually puts in place against good management. Now it has been suggested before that we should not run the Government like a business. I agree with that to some extent. I don't in other places. While I think we can make much better use of our resources, earmarking, which is traditional in the Congress in order to get their priorities done, is not looked upon as most managers as good management.

In many cases, restrictions that are put in place. For example, the Congress will go and make some very good changes in legislation on credit reform; then will tell the Department of Agriculture that they can't implement those exact changes that the Congress just legislated. And you know we can put together a whole list of those examples.

Then I think there's a lack of interest by the oversight committees and many times up in the Congress with improved management with the exception of this subcommittee and the committee on the other side, Governmental Affairs. Most committees simply don't really care about improved management. It is not sexy. It doesn't get you reelected. There's not a lot of P.R. involved in it. And the only time that you find a Cabinet officer being brought up to a committee chairman and a little hell being raised because of the fact he or she is not managing the department well is when there is a scandal.

Well, that's not good management. Management is a daily, yearly process.

Last, I would say that past administrations, including my own, didn't always have their act together and didn't always support management improvement as well as they should have. There is seldom much priority for management reform in the OMB staff of around 500 FTE's with a budget of around $60 million. Naturally, they pay attention to the wheel that is squeaking the loudest, and that normally is the President or a Cabinet officer or a Member of the Congress on a budget issue. Therefore, they can have all the best intentions in the world, but the budget gets the immediate action; and management does take second place in many cases. I would also say there are diffuse responsibilities and resources for management throughout the agencies and throughout the executive branch.

In summary, I'd say it's clear that a governmentwide management process and perhaps a reorganization is needed, but responsibility for this effort has got to have congressional support. It's got to have what I would call a fairly substantial long-range overhaul in the way the executive branch and the legislative branch interface. Otherwise, it's just going to be moving boxes around and further diffusing of responsibility.

Thank you very much, Mr. Chairman.

Mr. HORN. Well, we thank you for your very precise statement. I think you have one typo here that may I suggest you might want to correct it?

On your written version when you—fourth paragraph, you say zero-based budgeting under President Nixon. I believe it was under President Carter who campaigned on this issue, because he had done it as Governor of Georgia. So I think you would want to change that for the written record.

Mr. WRIGHT. Thank you very much, Mr. Chairman. Now you understand why I'm part of this group rather than the historians.

Mr. HORN. I lived through a few of these things.

[The prepared statement of Mr. Wright follows:]

Chairman Horn:

Thank you for inviting me to testify before the Subcommittee on Government Management, Information and Technology on the creation of the Office of Federal Management. I apologize, in advance, to the Subcommittee for not presenting a more complete testimony in writing, but my travel schedule has not permitted me to do this.As you may know, I spent many years during the 1970's and 1980's working to improve the management of our Federal Government and will be more than happy to discuss these efforts as well as recommendations for improvements with the Subcommittee.

In your letter inviting me to testify today, you stated that "the effectiveness of Management in the Office of Management and Budget (OMB) is a long-standing problem." If that is indeed the case, then I must take partial responsibility for being part of that problem since I was Deputy Director of OMB from 1982-1988, and was President Reagan's last Director of the agency.

During those years, as in most Administrations, the OMB Director tended to focus on budget issues and the Deputy Director supported those efforts as well as focused on management improvement. President Reagan, however, had an unusual interest in trying to improve the management of the US Federal Government and looked at OMB as his agency to implement this initiative(s).

The Subcommittee will, I am sure, study past attempts to improve the management of the Federal Government and OMB's role in this effort. We at OMB did the same in the early 1980's, including reviews of : 1) zero-based budgeting under President Nixon, 2) the Management By Objectives (MBO) efforts under President's Nixon and Ford, 3) The Program Review process as part of OMB's budget reviews under President Ford, 4) the reorganization efforts of President Carter, 5) regulatory reform under President Reagan through the Paperwork Reduction Act, 6) management reviews by the Government Accounting Office, 7) recommendations of the President's Private Sector Survey on Cost Control (PPSSCC or The Grace Commission), and 8) others.

As a result, OMB under President Reagan set up management reviews as part of their budget review process with the agencies; established the President's Council on Management Improvement (PCMI) made up of the Assistant Secretaries of Administration in the agencies to implement management improvements; strengthened the President's Council on Integrity and Efficiency (PCIE) made up of the Inspectors General in the agencies to identify management improvements in support of their efforts to reduce waste, fraud and abuse; issued a Management Report with each annual budget; installed the first government-wide Chief Financial Officer; initiated standardization and consolidation of government-wide financial accounting, payroll and personnel systems; installed the first government-wide ATM and lock box system for cash management; began the use of credit cards for government employee expenses and purchases; worked with the Congress to improve credit management and controls; and many more initiatives.

But OMB was not able to work with the Congress and the agencies to establish a "permanent management process" that resulted in effective planning, accurate analysis and tracking of the cost effectiveness of government programs, and accountability for results. At OMB, we knew that this was our responsibility within the Executive Branch but often could not agree internally on how it could be accomplished. And we seldom got any assistance from the Congress in this effort where management improvement normally did not enjoy a high-priority except in a "crisis" situation or where a scandal occurred at a specific agency or program.

The PPSSCC actually recommended in the early 1980's that an Office of Federal Management be formed in the Executive Office of the President. OMB did not agree with this recommendation because we felt that management initiatives without the "power of the budget" would not be effective and would not be carried out in the agencies. Instead, as mentioned earlier, we established management reviews as part of every agency's budget review annually at OMB. Given enough time, this process perhaps could have become institutionalized but it was discontinued along with the annual Management Report to the Congress in 1989. Since then, there has been a splintering of management improvement efforts throughout the Government as a result of Vice President Gore's Reinventing Government initiative, a new Deputy Director at OMB for Management, a legislated Chief Financial Officers at OMB and the agencies, etc. As a result, there is less centralized responsibility for management improvement in the Federal Government and there certainly is no "permanent management process" in place to enable the President and the Congress to home confidence that the tax payers' money is being spent as wisely as possible.

So something, Mr. Chairman, should finally be done to correct the situation and institutionalize the process of management improvement in a government that is as large and pervasive as ours here in the United States. And this should be done in an organized manner by the Congress rather than the "perceived" efforts of the past. Perhaps it is very difficult to do in a "political environment," but I congratulate the Chairman and the Subcommittee on focusing your efforts on this very worthwhile cause and will be more than happy to answer any questions and assist in this effort in any way that I can.

Mr. HORN. Now we have our friend from Philadelphia, Dr. Paul Light. He made the train or the plane, as the case may be, although I've known of cases where people have taken horses from Philadelphia, but that was a long time ago. The Pew foundation can do better than that.

Mr. LIGHT. Well, I appreciate you asking me back. As always, I'm here as a private citizen and scholar and not as a representative of Pew Charitable Trusts.

I'm here reluctantly, not under subpoena, to support the concept of an Office of Federal Management. I start out that way because I have opposed the idea for quite some time.

I don't know why I opposed it. Perhaps I didn't want to be too closely identified with Dr. Ink and others in the National Academy of Public Administration. Those of us in the public management field kind of characterized Dwight Ink, Alan Dean, Harold Seidman, Ron Moe as kind of the Public Administration water torture. They have been drip, drip, dripping on OFM for a good 15 years now, and I'm here to tell you—well, I'm here to tell you they've worn me down, and I may not——

Mr. HORN. I'm a fellow victim.

Mr. LIGHT. I finally gave in and decided to support it just to get the dripping to stop.

I do think it is an idea whose time has come, and perhaps that's where we all have arrived. We have had a series of really Herculean efforts by administrations over the years to strengthen management, most notably the Ash Council reforms of the late 1960's and early 1970's which, of course, Dwight Ink was involved and he wrote the reports, and I continue to plagiarize from him heavily.

And we have seen good deputy directors of one kind or another come and go, Joe Wright being one of them. Joe Wright had substantial management experience before he went to OMB. He cut his teeth as Assistant Secretary for Administration at Agriculture in the Nixon years and did a fine job.

I'm fond of pointing out that when he was over at Agriculture he couldn't stand the concept of an inspector general, but when he got to OMB he kind of fell in love with the idea. And that's a classic example of where you stand depends on where you sit. At OMB, as a manager responsible for building management and attacking fraud, waste, and abuse, the notion was how do we work with the IGs to harness their considerable energy and staff to do some good?

At any rate, I came to this reluctant conclusion because, after observing OMB struggle with this for the last 12 or 15 years, we can see that it's just not working. We love to have OMB using the budget as a tool to incent better management performance. It's not happening. It's very rare.

Let me give you my four basic reasons for having concluded that we ought to do this, and they don't all include the constant pressure from Dwight Ink and his colleagues.

First of all, we continue to see a lack of attention, durable attention, to management.

Second, despite the promised link between budget and management that Richard Nixon talked about in 1969 and 1970, he placed management first in the title. It was the Office of Management and Budget, in spite of Senate objections to that title. The Senate wanted the Office of Budget and Management; and the Nixon administration stood with it, saying that management should come first. Despite that promised link, it's just really not there.

There has been, third, a marginalization of the management staff at OMB, although they're quite talented. We have Jonathan Brew here from OMB, a distinguished new fellow of the National Academy of Public Administration. But notwithstanding the talents of the staff at OMB, you know, I think that the management staff is marginalized and not well regarded as colleagues. They're kind of a last thought in many meetings.

Fourth, in all candor, I think we have the lack of a high-level advocate for management issues within Government. We do have a Deputy Director for Management. That person is, theoretically, at the same executive level as the General Deputy Director, but let's face it. It's a No. 3 slot, and it's kind of an odd fit.

And we've done everything we can—I've participated in a Senate Governmental Affairs Committee conversation about how to elevate management once again, how to give it a little more heft, and so we elevated it and gave it a little higher title, gave it a little higher pay grade. But at some point you have to say, look, we've tried just about everything. Maybe we should try the separation of management from OMB, see how that works. Given the tides of reform and the pounding over the years, we can always put it back together if it doesn't work, but this notion is to give it a chance, you know. I mean, it has not worked within OMB. Perhaps we should try it outside of OMB.

Now that's a reluctant endorsement, isn't it? But it's the best I can do, Dwight. I am making progress, I think.

Well, that will conclude my brief statement.

Mr. HORN. Well, we thank you for that humorous but accurate statement, and thank you very much for coming down here this morning.

[The prepared statement of Mr. Light follows:]

I am delighted to appear before this Subcommittee to discuss the creation of an Office of Federal Management. As the Chairman may know, I have become a reluctant supporter of the idea. I emphasize reluctant because I would prefer that the Office of Management and Budget (OMB) embrace its full authorities to lead departments and agencies toward higher performance. The Ash Council's design for a unified approach to budget and management is as appropriate today as it was when the Bureau of the Budget was transformed into the Office of Management and Budget in 1970.

Although the hope was that the link between budget and management would strengthen both, the Ash Council actually believed that management would do more to strengthen budget than vice versa. The decision to put management first in the new title was quite deliberate and actually withstood some congressional criticism. As Richard Nixon argued in his transmittal message to Congress, "preparation of the budget as such will no longer be its dominant, overriding concern." Instead, he argued,

> Improvement of Government organization, information and management systems will be a major function of the Office of Management and Budget. It will maintain a continuous review of the organizational structures and management processes of the Executive Branch, and recommend needed changes. It will take the lead in developing new information systems to provide the President with the performance and other data that he needs but does not now get. When new programs are launched, it will seek to ensure that they are not simply forced into or grafted onto existing organizational structures that may not be appropriate.

Unfortunately, the *M* in OMB never took that lead. The new management division had barely been in place for three years when it was reorganized again, marking the beginning of a three-decade period of nearly constant turmoil as OMB shuffled and reshuffled responsibilities again and again.

By the 1980s, as Congressional Research Service scholar Ronald Moe argues, the division was in abject disarray. Eight different associate directors headed the division during the Reagan and Bush years, during which at least six different realignments of the operating units took place. The once proud "organizational studies" unit that had spurred so much productive reform in the 1950s was renamed the "organization and special projects" division in 1981, then eliminated in 1982, as financial management and accounting reforms began to grow out of OMB concern with the basic systems and structure of government. By 1993, the division consisted of just two units--one for government operations (personnel, evaluation, and general services), the other for financial management reform. Even though Congress elevated the associate director for management to the deputy director rank, the turnover continued. President Clinton's first deputy director for management, Phillip Lader, was gone in less than a year.

The point of this short history is simple: management simply does not flourish in OMB. Despite its promised renascence, the *M* in OMB had been decimated over the past two decades. The management staff fell from 224 full-time employees in 1970 to 111 in 1980 and 47 in 1988. "During the 1980s," writes Ronald Moe, "OMB systematically subordinated its remaining management capabilities to support its budgetary and financial management system priorities. They believed that if they conducted enough financial management improvement projects, this would equal a management philosophy."

The Clinton administration mostly completed the dismantling in 1994 with yet another reorganization. This time the entire management division was split up, with half the staff shuffled to the budget side of the agency. As OMB director Leon Panetta acknowledged at the time, "Critics of these recommendations may say that the efforts to 'integrate' management and budget will end in merely bigger budget divisions, whose management responsibilities will be driven out by daily fire-fighting on budget issues. We believe this criticism is based on a false premise that 'management' and 'budget' issues can be thought about separately." There is no doubt, of course, that budget and management are intimately related, but to reduce management to mere budget is to narrow management to mere bean-counting.

Whether the *M* and *B* can work together is not the key question here. Whether presidents have access to a central staff that can both advise them on the cross-cutting issues that affect all departments and agencies, while providing central oversight of critical trends is. It has become fashionable of late to eschew all things central in favor of decentralization and devolution. No doubt there is great value in giving departments and agencies greater freedom to pursue management solutions unique to their missions. That does not mean, however, that government should abandon core operating principles such as merit hiring and standardized financial controls. The federal government actually has enormous experience with highly decentralized management solutions, which is precisely why we have hundreds upon hundreds of separate financial management systems that cannot talk to each other, and why we spend billions reinventing the wheel of information technology. I think we would mostly agree that the federal government needs more, not less, centralization of its financial management systems, and more, not less, oversight of the faithful execution of laws such as the Government Performance and Results Act. Simply stated, there are some areas where one size *must* fit all. At the risk of calling upon too many ghosts of management reforms past, the first Hoover Commission called this "decentralization under centralized control." Faithful execution of the laws requires the president to maintain an active presence in every agency, particularly when the laws clearly establish government-wide requirements. Unfortunately, the dismantling of the OMB's management division and the parallel weakening of the Office of Personnel Management has blinded the president's ability to assure that faithful execution. Notwithstanding the commitments of the handful of people left in the old management division, the *M* in OMB exists in label only.

Truth in labeling also requires that I acknowledge my own opposition to the OFM concept over the years. Like so many others in the public management field, I believed that the budget side of OMB provided the needed muscle for management. Over the past ten years, I have slowly changed my mind as the OFM changed from being an idea whose time had not yet come to an idea that cannot come soon enough. I will leave it to others to advise this Subcommittee on the specifics of what such an office should do and how to assure that the president pays at least minimal attention to the occupant of what should be an Executive Level I presidential appointee. I would argue, however, that such an office be built from the remnants of the old management division, the Office of Information and Regulatory Affairs, the Office of Federal Procurement Policy, the Office of Personnel Management, and, with due respect for the difficulties involved, the General Services Administration.

If budget was the hoped-for driver in the original Ash Council design for OMB, acquisitions, personnel, and information technology would be the drivers for the new OFM. I am less troubled today than I once was about the loss of power that would come with the separation from budget. In fact, there is almost no evidence that the connection ever helped on management. Indeed, the history of financial management reform suggests otherwise. If there was ever an opportunity to prove the Ash Council's theory that the two sides could work together, surely financial management reform was it. What could be more dear to a budget analyst's heart than the proper expenditure and accounting of federal appropriations? In reality, most budget analysts are neither interested nor well schooled in just how financial management relates to their work. They are trained to allocate money wisely, not account for it thoroughly. Once the money leaves their hands, it is time to start budgeting for the next fiscal year.

I do not believe that management would disappear from public view in an OFM. Management will always be a back-page story, if it is a story at all. But that is not the issue. Whether management is exciting or boring, it is essential to the faithful execution of the laws. Much as we can admire all the work involved in the National Partnership for Reinventing Government (nee National Performance Review), and much as we should all reject needless thickening of the hierarchy, an OFM would provide the needed senior oversight to make the reforms stick. It is very much an idea whose time has come.

Mr. HORN. Dr. Gilmour, we're delighted to hear from you and please proceed.

Mr. GILMOUR. Thank you, Mr. Chairman and members of the subcommittee.

I confess that I had less resistance than Paul Light to the water torture. I succumbed to it back in the early 1980's after seeing what happened in that period of time with management as opposed to budget as the era of deficits came upon us.

One of the things that interested me then and still does is the difference between the public and private sectors. Now, of course, it's back in vogue that Government should be more businesslike. But one area of great difference and that is in the attention paid to management by the two sectors.

In the private sector, there are literally billions of dollars spent on management training, retraining, organizational devices, and other techniques. In the public sector, we tend to take these things for granted. Management just happens.

I suppose this is largely because Government is so much more input-driven, interested in where the dollars are going to come from, where they're going to go, a lot less interested in results. A results orientation demands that managers manage and be responsible for those results. Perhaps that structures a great divide.

But with a lessened interest in management per se, as those of us who are scholars look at all this we have tended for a long time to look to the President for managerial leadership, knowing full well that, even if we do that, management reforms and improvements, if they're to be had, must really come from the agencies.

But for so many activities in management where there are crosscutting, cross-agency needs, crosscutting systems that have to be rationalized and integrated, it's again to the President that we look; and we have looked almost the first to OMB or, before then, to the Bureau of the Budget for leadership, and, to a large extent, we found it.

I have had an opportunity to meet, and to visit with every person who has been responsible for the management function in OMB and BOB before that, going back to Don Stone, the late Don Stone, in the 1930's and 1940's. I've been impressed that each of them has come to the same conclusion, usually after they left the BOB or OMB, and that is that management simply can't be effectively attended to in the Nation's budget office. It sometimes takes a while, but all of them, in addition to those of us who are just academics and being dripped upon by our community, have come to the same conclusion.

A little more than a decade ago Congress first considered the idea of an OFM, an Office of Federal Management separated from OMB. At that time, the legislation over on the other side of Capitol Hill was stymied by—well, for a number of reasons, but in major part because of one single issue and that's the issue of clout.

You've already heard it today, that, without budgetary power, management on its own, in a separate office, simply couldn't be effective in persuading agencies, on behalf of the President or otherwise, to institute followthrough on the necessary reforms for better management practice.

I suggest to you, as Ronald Moe has already done, that the influence of an effective management staff in the Executive Office of the President is not derived from budgetary power. It comes, rather, from the battery of laws that you and the Congress have enacted, what we generally refer to as the general management laws.

Actually, there are many of them, as has been reported here, that each one of them has a bit of clout on its own. None of them is particularly dependent upon budgetary power. On occasion, they're interrelated; but the powers, say, over regulatory reform for regulatory coherence or even to shape regulatory power is found in the Paperwork Reduction Act, not in the Budget and Accounting Act. And so it goes.

There are many tools there for management staff to work with. But central coordination and oversight then of general management laws is strengthened, not weakened, by their implementation in a separate management agency apart from the highly politicized environment of the Federal Budget Office.

Of more subtle importance, and this has been mentioned too, a sustained commitment to improvements in management systems and finance information, technology, regulation, procurement simply requires a long-term view, an agency with a commitment to management improvement over the long haul not just for the current budget cycle or in response to the immediate or intermediate budget shortfall. An OFM, as you have proposed it in the discussion bill before this body, is not a mere short-term management agency. It would contain all of the tools for management that would and could shape changes in reforms in management systems.

Having said that, let me say further that I don't suppose that an Office of Federal Management, even a well-staffed, organized and directed one, would be a panacea for what ails Federal management systems and programs. I think it could and would elevate those concerns for public management to a higher level and would provide an institutional source of advice as a counterpart to budget-source advice, advice to the President on management concerns.

With that, Mr. Chairman, I stand ready for questions.

Mr. HORN. I thank you for that very thorough and succinct statement. You've boiled a lot of this down, and I appreciate that.

[The prepared statement of Mr. Gilmour follows:]

STATEMENT OF

ROBERT S. GILMOUR
Professor of Political Science
and
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Before the

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT AND TECHNOLOGY
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT
U.S. HOUSE OF REPRESENTATIVES

on

CREATION OF AN OFFICE OF FEDERAL MANAGEMENT

Washington, DC
May 12, 1998

Mr. Chairman and Members of the Subcommittee:

As a former practitioner and long-term student of Federal organization and management, I cannot help but be impressed that one area where the private and public sectors are profoundly different — in their concern of effective executive management — is the one in which they ought to be virtually identical. In the private sector literally billions of dollars are spent in the training and retraining of managerial executives and in the development of more effective methods, techniques, and organizational arrangements to achieve corporate objectives. In the public sector the subject is all but taken for granted. Despite obvious weaknesses in capacity and performance across the Federal Executive, with literally trillions of dollars annually at stake in the administration of government programs — clearly, the concern for effective management should be at least as great as in any private firm. Unfortunately, it is not. With this in view, it is gratifying, Mr. Chairman, that you have chosen to focus the Subcommittee's attention on improving government management and, in particular, on the creation and design of a new Office of Federal Management.

Nearly all of us who have worked to improve government management begin with the understanding that the most pointed responsibility for excellence in Federal management rests ultimately with the President as the Nation's Chief Executive. And yet the real opportunity for achieving excellence in Federal management is to be found in the agencies, not in the presidency.

The President of the United States is not, as some suggest, like the president of a large corporation. He is more like the chief executive of a mammoth holding company, replete with separate, diverse, and sometimes conflicting interests.

Still, there are critical management issues that cut across agency and department boundaries: The need to find and develop effective managers, to organize for full-performance service delivery, and to develop and maintain effective overall systems for human resources and financial management, regulatory coherence, procurement, and for the management of information and technology.

For nearly 60 years we have generally understood that overall leadership for Federal management can only come from the President. But to provide that leadership, he needs help. He needs the sustained institutional resources to provide accurate information and advice and to make sure that the general management laws of the Federal Government are implemented, as well as the implementation of his own managerial initiatives. This was the reasoning behind Congress's creation of the Executive Office of the President (EOP) in 1939, and the understanding that prompted later reorganization of the former Bureau of the Budget in the EOP as the Office of Management and Budget (OMB) in 1970.

Fundamental managerial roles for which OMB was created began to erode almost as soon as the word "Management" was added to the name of the Nation's budget office. Ironically, as several studies have now shown, at a time when greater and greater managerial responsibilities were delegated to OMB by law, the "management side" of OMB had fewer and fewer resources to shoulder them. Subsequently, management in OMB has been openly acknowledged to be "budget driven" — subservient to mandated budget targets and position reductions and with little regard for developing leadership of organizational and managerial systems capacity to assure efficient and effective government service delivery and program performance. This is hardly the kind of sustained managerial assistance that the President needs.

As a consequence of these developments in OMB, the need for an independent Office of Federal Management (OFM) as an institutional management arm of the President has been recognized and understood by virtually every management authority ever to take a serious look at the issue. During my staff service for the Governmental Affairs Committee on the other side of Capitol Hill and as a student of Federal management for some 35 years, I've had the good fortune to meet every person who has held the position equivalent of Associate Director for Management in the national budget agency since the time of the late Donald Stone at the BOB in the late-1930s and 1940s. I believe it is accurate to report that every veteran of that position in OMB and its predecessor agency has come, without exception, to the conclusion that the management policy function cannot be performed with any adequacy in OMB.

When Congress first considered creation of an Office of Federal Management more than a decade ago, that legislation was stymied by the well perpetuated myth that an OFM without budgetary powers and sanctions would lack the "clout" to carry out its mission. If it was not obvious then, it must surely be now that it is OMB's very preoccupation with blunt, top-down budget "clout" that has obscured and devalued performance of its critical management functions.

The importance and influence of an effective management staff in the Executive Office of the President is not derived from budgetary power; it is the result of provisions and requirements found in a battery of Federal management laws, including: the Budget and Accounting Act, 1921; Administrative Procedure Act, 1946; Federal Tort Claims Act, 1946; Freedom of Information Act, 1967; Federal Procurement Policy Act, 1974; Injunctive Relief Act, 1976; Sunshine in Government Act, 1976; Intentional Tort Amendment Act, 1976; Inspector General Act, 1978; Ethics in Government Act, 1978; Paperwork Reduction Act, 1980; Prompt Payment Act, 1983; Federal Managers Financial Integrity Act, 1984; Competition in Contracting Act, 1984; Privacy Act, 1984;

Chief Financial Officers Act, 1990; Government Performance and Results Act, 1993; Government Management Reform Act, 1994; Information Technology Management Reform Act, 1996; among many other, less important Federal management statutes.

The central coordination, oversight, and control of the general management laws is strengthened — not weakened — when their implementation is managed by a Federal agency apart from the highly politicized environment of the Federal budget office. If powerful incentives are needed in the service of managerial upgrading and reform, they can be found among the controls already exercised (without need for budgetary leverage) by the Office of Information and Regulatory Affairs (OIRA) and the Office of Federal Procurement Policy (OFPP), now situated in the Office of Management and Budget and which should be transferred to the OFM. The writing of presidential Executive Orders should also be transferred to the OFM, and OMB Circulars redesignated as OFM Circulars. And, if these agency incentives are insufficient, Congress can easily add more to bolster OFM persuasiveness as a matter of law.

Of even greater, if more subtle importance to the performance of Federal management is the increase in resources, expertise, and sustained commitment to improvements in managerial systems for Federal finance, information, technology, regulation, and procurement. Once removed from a budgetary control culture, an OFM can become a petitioner and co-claimant with other agencies for the attention and resources needed for management systems improvement. As anyone involved with attempts to upgrade and coordinate government financial or information systems can appreciate, even on a relatively small scale such reforms are time and resource consumptive in the extreme. They also require staff expertise and sustained dedication to objectives that are not often available to a single agency, either in-house or through private contractors. In the past such efforts in the Office of Management and Budget have largely been undertaken as episodic "special projects." Establishment of an OFM holds the prospect of combining management policy functions in ways that will promote integrated management system improvements of broader application and with greater continuity.

Of fundamental importance to the organization of an effective OFM is a combination of the full array of managerial policy functions in one relatively small, independent office within the Executive Office of the President, reporting directly to the President. The range of such functions is extensive, including among others: human resources management and staffing, government organization (including government corporations and government sponsored enterprises), procurement and real property policy and systems, financial (accounting, reporting, cost, cash, and credit) systems, auditing, inspection, and investigation, information and technology management, regulatory and paperwork review and reform, grants management and intergovernmental relations, Freedom of Information Act and Privacy Act compliance, program and management systems evaluation, general privatization and public-private partnerships policy, productivity enhancement, and management research. While these functions are diverse, they are almost inevitably interrelated, which argues against hiving off particular functions, however important — financial management or information management, for example — as isolated separate functions with separate and independent offices of their own. But this is not to suggest that major operating agencies such as the Office of Personnel Management and the General Services Administration be loaded into an Office of Federal Management. Not only would they overwhelm OFM's critical management policy functions with massive day-to-day operations, they would also be inconsistent with the policy-advisory, coordination, and review roles of EOP agencies on behalf of the President.

Finally, in an era when Congress has become deeply involved in the implementation of literally hundreds of agency-administered programs to the point that many can be said to be "co-managed" by Congress and the Executive Branch, it is essential that an OFM have a reporting relationship with Congress. What is proposed in the discussion-draft bill now before this Subcommittee is not a mere special projects agency, but an OFM with overall staff responsibility for a huge array of integrated management policy functions. While OFM's critical and primary relationship is with the President, this office should also be charged with regularly informing the Congress of its progress, challenges, plans for improvement, systemic resource needs, specific managerial weaknesses, and potential trouble spots.

I hold no illusion that an Office of Federal Management — even a very well organized, staffed, and directed one — will be the panacea for what ails Federal management systems and programs, or that it will elevate the concern for public sector management to that which prevails in the private sector. But the establishment of an independent OFM will provide relevant and coherent managerial advice to the President apart from the political fallout from projections of the latest budgetary shortfall. Creation of a well designed OFM also offers at least the possibility that both the President and Congress will be alerted to important management concerns and problems so as to be able to respond to them before they reach crisis proportions.

Mr. HORN. I now yield 15 minutes to my colleague, the ranking minority member, Mr. Kucinich, for questioning witnesses.

Mr. KUCINICH. Thank you very much Mr. Chairman.

As I've heard some of our witnesses testify, particularly Mr. Light—first of all, welcome to all of you.

Mr. Light, I was listening to your testimony, and it kind of reminded me of hearing someone on the beginning of their 10-point program for reform of budget-driven devotees, and I'm—so, for that reason, I'm going to focus some of my questions on your testimony and ask for your response.

You know, it occurs to me that the Federal Government operates more and more every day in an increasingly complex world; and Federal agencies are embarking on public-private partnerships, competing in the private sector, and developing collaborative relationships with private entities and other governments. Have you considered that—wouldn't divorcing management from budget simply minimize flexibility within agencies and hinder bottom-up ideas and innovation?

Mr. LIGHT. Actually, I might argue that—how divorcing management from budget produces the opposite result, that——

Mr. KUCINICH. How so?

Mr. LIGHT. Well, the constant attention to the budget as the driver is distracting from doing the kind of mundane organizational work that needs to be done to free ideas to flow more slowly upward. We're consumed with budget as the central issue within agency life and get distracted from the dirty work, the delayering that needs to occur, the streamlining of the rural systems that needs to occur. It can distract us.

I think the notion here is that budget can drive out all other considerations. And as long as you're spending the money, as long as you're pushing it out the door, you don't need to worry much about the organizational structure or the systems in order to do it wisely.

You know—and when you all asked the earlier panel whether they know of any situations where management has driven or budget has driven out management, I think your experience on this subcommittee with the failures over the years to implement the debt collection statutes, the efforts to design and implement more systematic standardized accounting systems—I mean, the notion is, once we spend the money, we don't have to worry too much about it; and I think that's an issue of the input activity involved in budget driving out the management activities that occurs as the spending begins.

Mr. KUCINICH. You know, what I seem to be missing in all this discussion all of you are esteemed and very well-lettered witnesses—is a discussion of the impact of politics. Maybe there's a vast divide here between this desk here and that table. But swimming from this side to that side or that side to this side in terms of careers and functions is quite a task, and there is a political reality that we're dealing with here.

I can be for good management in concept, but you offer a shift in paradigm which seems to not encompass the fact that perhaps we've had structures that, per se, could have worked but were defeated by politics.

Mr. INK. I would argue the opposite. I have served in both career and political roles. I've headed agencies and bureaus. I've worked out of the White House. What we're talking about here provides a much broader outreach to the various segments of society, much broader outreach beyond Washington than the budget process, which tends to focus pretty much here in Washington. It reaches out to the various political components of the country.

I would say that the way it has worked best, the management part of the Bureau of the Budget and OMB has worked best even when we're talking about political leadership when it has been able to develop bipartisan approaches. The majority of the management issues that we're talking about really should have a bipartisan solution. I think you achieve that much more easily outside the debate that is necessarily involved in the budget process as well as developing this outreach, as I say, much beyond Washington which you can get through an Office of Federal Management.

Mr. KUCINICH. I don't dispute that there should be a bipartisan relationship in this. When I look at the remarks in Mr. Light's testimony quoting President Nixon—and I look at where he said that preparation of the budget as such would no longer be the dominant, overriding concern; improvement of Government organization, information and management systems will be a major function of the Office of Budget and Management Act.

Now, that was his intention. I look at the output—model cities in HUD, HUD-related debacles where tens of millions if not hundreds of millions of dollars just disappeared, the entire Federal grant program a disaster—they were talking management then. There was an emphasis on management.

So I'm just wondering—and I will say that there are a number of things that happen in terms of the management of various Federal programs which were salutary during those years, and so I'm—just to respond, I want to get staff up here. I want to draw your attention to a chart that's entitled OMB's Priority Management Objectives; and the chart lists 11 governmentwide management priorities which I think you're all familiar with.

Mr. INK. I can't see them from here.

Mr. KUCINICH. Why don't we move it up, OK? Because I'm going to put my glasses on, too.

Mr. INK. Thank you.

Mr. HORN. Split the difference so we can see it, too.

Thank you. OK.

Mr. KUCINICH. OK.

As you look at these—OMB's priority management objectives—and let's emphasize management here for a moment. Would any of you gentlemen care to respond to these questions? Would any of you add to this list of management priorities things that are not already there and do these priorities look reasonable?

I want to get back to some practical considerations here. What's OMB missing? We might benefit from your expertise at this moment by asking you to address any specific problems that you might be able to give us a snapshot of in OMB's long-term management planning. What are they missing right now?

Mr. INK. Well, one of the things they're missing, which I think is pretty fundamental, is how all this impacts on people, how it impacts on families, how it impacts on communities, and how it impacts on businessmen. Looking at Government operations from the perspective of people outside Washington, I think is very important. It's missing here.

Mr. KUCINICH. So it's your opinion then that this priority management objective is mostly inside the beltway.

Mr. INK. I think——

Mr. KUCINICH. Patty cake?

Mr. INK. I think it's too much focused inside the beltway.

Now there are things inside the beltway that are very important, and some of those listed are very important. Some of them—debt collection I recall—are interesting as examples of financial management work we were not able to get under way while we were part of OMB. It wasn't until we were exiled to General Services Administration that we were able to really begin work, which Mr. Wright later went further with.

It wasn't until we were out of OMB that we could get focus on how much overhead takes from the money that Congress appropriates for major programs. We couldn't do that in OMB because of the budget tunnel vision limitations, the inhibitions of the budget process. We were able to get some of the most important financial management improvements under way once we got out—totally out from the Office of Management and Budget.

Mr. KUCINICH. It's an interesting testimony. I would wonder, Mr. Horn, has there ever been buttons appearing on Capitol Hill like free the OMB 200 managers or whatever? It's an interesting assertion.

Mr. INK. I do not recommend GSA as the location for this function, you understand. And I thought it was a mistake to put us in GSA. But the fact is, we found to my surprise and everybody else's, that there were things we could do in a weak agency such as GSA outside the Executive Office that we could not accomplish when we were too close to the budget process, including financial management initiatives.

Mr. KUCINICH. And is this something that you think is inherent? It has nothing to do with appropriate resources?

Mr. INK. Yes, I think it's inherent in the budget process—not the budget examiners who are now program examiners. These are some of the most talented people you will find anywhere in Government, and their perspective and their interests are broader than the system within which they function.

Mr. KUCINICH. Let's go back to this priority management objective. You just would dismiss the whole paradigm, is that what you're saying? That this structure doesn't work because it doesn't include people?

Mr. INK. I wasn't dismissing it. You asked me if there is something missing, and I gave you an example of something very important that I think is missing.

Another thing that is missing is the kinds of things that Mr. Moe talked about—all these crosscutting problems and issues and the crosscutting laws. You don't have a crosscutting focus any more. You never had it to the extent that an Office of Federal Management would provide, but you have it even less now than you used to have some years ago.

Mr. KUCINICH. So these matters that you just pointed out, are these things that the structure exists for OMB to address?

Mr. INK. These are things that OMB theoretically should be addressing but is very, very difficult to address under the current system, under the current structure.

Mr. LIGHT. I mean, if you look at this list or you look at the statutes that are out there, there is no shortage of priorities or statutes ordering OMB and the Government to pay attention to things like debt collection or financial management improvement. You've got a ton of statutes. This committee passes statutes regularly reminding agencies that we told them last year to do X and Y and Z.

I mean, what's missing on that list is political will within OMB to pay attention to these issues. If you're in OMB, the way you get ahead organizationally is on the budget side. It's not a career-advancing agency to pay attention to management. That's not where the payoff is. There's organizational politics who want to put politics back into it. There's organizational politics against management. It's not the favored——

Mr. KUCINICH. But the political will, as you describe it, how does it generate within managers? It has to come from elected officials in a democratic society, does it not, if we're using more of a strict definition of the word political.

Mr. LIGHT. You need a President, you need a Vice President, you need senior staff who care about management. Now the problem right now is that, even if you had a President or a Vice President, I think we do, who care about management, they can't get what they need from OMB. They create a ramp organization off to the side of OMB which is responsive and fast and cares about the political issues that the Vice President cares about right now. He's not using OMB as the main engine for reinventing.

And I think, whatever you think about reinventing, whether you like it or don't like it, you wouldn't go to OMB to get that kind of muscle. It just doesn't exist inside OMB, and it doesn't get the attention it needs.

Mr. KUCINICH. Let's flip this for a moment back to Mr. Ink. If you decouple budget and management——

Mr. INK. Organizationally.

Now in my testimony——

Mr. KUCINICH. But where is the integration then? How do you integrate if there is not a formal joining?

Mr. INK. As was mentioned earlier this morning, there is nothing—no Government function or activity is totally discrete and functions totally by itself. Even your national security activities and your domestic activities have a great deal of interface. Economic issues cut totally across the line. Almost everything is affected by everything else in some sense.

So the question is not whether you isolate one function from another. The question is the extent to which they have individual leadership and have individual leverages that they can use. The Office of Federal Management and Office of Federal Budget, would have to work closely together in a number of issues, of which I would say GPRA is maybe the best example.

Mr. KUCINICH. I would like to ask one more question.

Professor Gilmour, in your written testimony you state that former associate directors, deputies for management uniformly think that management functions are not adequately addressed at OMB. And this may indicate that we must improve management at OMB and we must work to elevate its stature, but it does not demonstrate that a separate agency for management will be more effective. Do you believe that they would all support this proposal?

Mr. GILMOUR. I think that was the point that, of those that I met—I think I met them all and had a good chance to chat with them—all of them have come away from the experience disappointed at what they were able to do.

Now much along the lines that you've heard from Dwight Ink, they felt that they were stymied there, were unable to fulfill the mandate of your legislation. If I might look at your list, I'm surprised it's as long as it is, given the strengths on what we used to call the management side of the House left at OMB.

It looks like a long list, given that strength, and yet it misses some very major things. I don't see a thing about organization on there. Not only are there major problems in government organization as we usually think about it but today, having come down here from Connecticut, I can tell you that last week our State folks were wrestling with a lot of problems that have been sent back to them in various agencies.

Our Public Health Agency, our Environmental Protection Agency, among others, tried to look at a set of questions that have been pushed back at the States without any particular guidance on what I would characterize as a major organizational problem, organization for a set of management problems in intergovernmental relations. There is simply no one at OMB these days to address those problems, and the States are certainly not getting advice or assistance from OMB today.

Mr. KUCINICH. Thank you, Dr. Gilmour.

There are—and we didn't have this on another chart but you are familiar—interagency objectives as well as agencies' specific objectives which flow from the objectives that are listed there.

Just the governmentwide performance plan that—I was able to get preparation for this from the Executive Office and Office of Budget and Management, fiscal year 1999—lays out not simply the priority management objectives that are there on the chart but also interagency objectives that include year 2000, GPRA, financial management, information technology, and more agency-specific objectives that have to do with various milestones in Defense, Education, Energy, et cetera.

So that's what I was referring to, and thanks to each of the gentlemen for their very valuable insight on this.

Thank you.

Mr. HORN. One of the problems we will face if this is pursued, as I think it should be, will be, what the size of this agency be and do we need to create another agency even if its in the Executive Office of the President? And I just wonder, based on history, how effective can they be, given a certain level of personnel?

I realize we've imposed other duties since the management staff was at its high under Roosevelt, Truman, and Eisenhower. It was a very small group, as I recall. They were at the President's service to, for example, go out and draft government cooperation legislation, talk to everybody involved that has an idea in this area, this kind of thing.

And what I see in this is that the President simply doesn't have the tools available to him to share with his Cabinet and with agency heads when they have major problems in some of these departments that are management problems. It should be the in-house consulting firm, which is what that old Bureau of the Budget was, that they did have a lot of bright people. They were career people. They were generalists, largely. They could move into a situation on behalf of the President.

That's what's going to make the thing work. Let's face it. If the President doesn't want anything to happen, it won't happen. If the President wants something to happen, it will happen. But, right now, he doesn't have anybody he can really call on on the management side.

You can go contract with Arthur D. Little or McKenzie or whoever it is, and that's interesting. I remember very well that President Eisenhower did make that contract, either during the transition period after the November 1952 election——

When I was Assistant to the Secretary of Labor at the end of the administration, 1959 and 1960, one day Secretary Mitchell opened a drawer in his conference room which used to be the Secretary's office. He couldn't stand any office that large so he turned it into a conference room, and he said, "Here, Steve, take that McKenzie and Co. study." He says, "You can keep it." He said, "None of us has ever read it."

And so much for consultants that are paid money on management. It's because the Secretary had in mind his own ideas, and he was the first Secretary of Labor that ever managed that Department, and the others had been great political figures or out making speeches. He had headed all civilian personnel in the Pentagon in the Second World War. That was 1 million people, and he knew what he was talking about in labor relations.

At the end of the administration, George Meaney and 500 of America's leading labor leaders gave him a white tie banquet, if you would. I have never been to one of those before or since. I guess that's higher class than black tie. The President of the United States came over to thank him, as did the leaders of American labor.

So here was a guy that knew something about management. He didn't need a bunch of outside consultants. He just did it. Well, not everybody has that experience. He'd had it for 25 years. The problem is, how can the President get better performance out of many Cabinet officers who have no experience? If they had been a Governor, great, they know what goes on. They know the difficult situations you have to deal with in dealing with a legislature and so forth.

So I just am curious. Can this be done with 20 people, 40 people, 50 people? I realize they got a few things in there now that are just routine that used to be in the office or the Division of Statistical Services, whatever that was called, that cleared these surveys and that kind of stuff. I realize that takes a few bodies. But what's your feeling on that as to the——

Mr. INK. First observation I would make, it's easy for that kind of activity to become too large. I found that we were more effective when I had 50 professionals than later on when neither Joe Wright nor I were there, they had something 175 or more.

The government is more complex, however, than it was then. The technological impact is greater. There has to be a greater capacity to utilize modern technology than was true when I was there, so I suspect the 50 professionals I had would not be sufficient today primarily for that reason. But I would think probably 100 people, certainly no more than 125.

Mr. HORN. Any other thoughts, Mr. Wright?

Mr. WRIGHT. Mr. Chairman, I would agree with Dwight Ink.

I would say, first of all, I haven't totally bought into the fact that it is a good idea to create an Office of Federal Management away from OMB, but I believe that something has to be done with a dedicated organization, whether it be part of OMB or elsewhere, that is responsible to the President and the Congress.

Now, having said that, you have got a real danger of this growing out of proportion. And the way it would be done, as Dwight knows, you go and you'd assign 50 people to it, and that agency would then start bringing in detailees from each one of the agencies. And so you have a danger here.

Mr. Ink mentioned before that one of the ways to get real management improvement done is to take it away from OMB. I disagree with that. Because when I was at OMB, I can remember some of the greatest progress we made in areas that were fairly boring, like putting in a general ledger system for the financial accounting systems—and everybody will remember when we were working on that. That took us 6 years, and I'm not so sure it's finished today.

But what we did is, we worked very closely with Mr. Boucher at GAO, and we worked very closely with GSA and with Office of Personnel Management. This is something that the central agencies should work together in a coordinated way on a list of priorities that is agreed upon with the Congress and is reported on a periodic basis.

Mr. INK. I agree. I would expect this organization to be part of the joint financial management and improvement program. The Office of Federal Management would be a part of that, along with OPM and so on.

Mr. WRIGHT. But whether it be OFM or part of OMB or whatever it is, Mr. Chairman, I can remember and people are—there are people here who remember this. I can remember being in front of this committee—actually, it was the full committee—asked the committee to mandate our annual management report. And I did this on the Senate side for 6 years in a row. The year that I left, that management report was discontinued.

Now, at that stage, there is no question at OMB we didn't think we were smart enough to know what should go in that report because we didn't exactly understand what the Congress' priorities were, and we were asking for help. Now, at this stage, I think you're in a position where you can drive from this subcommittee much of the change in management improvement that's going to be occurring. And, like I say, it is much more than reorganization, but if you would decide to put in an OFM——

Mr. HORN. I am going to drop the "F." That is redundant. The Office of Management and the Office of Budget.

Mr. WRIGHT. That's fine—then I would suggest that it not be that large but it does have the authority to get things done and report to the President and the Congress. You may want to give them apportionment authority, like we discussed before.

Because, while I've heard that clout doesn't count, Mr. Chairman, I've got to tell you right now, when I was calling agency heads to get management improvement done, if I wouldn't have been at the Office of Management and Budget, it would have taken a little longer to get the call returned.

Mr. INK. My experience was the opposite. I had to prove that I was not associated with the budget in order to get the attention of the Secretary of State or the Secretary of Defense.

Mr. WRIGHT. Yes, but you controlled office space.

Mr. HORN. I can see where they would say if I talk frankly to this person they are going to use it against me in the next budget examiner round. Whereas if you could talk confidentially and they are working for the President and the Secretary of the particular department that he has nominated and the Senate has confirmed, it seems to me they are likely to tell you a little more.

Mr. INK. Not only that, but they are more likely to share with you their problems at an early stage, before they show up in the headlines.

Mr. HORN. Right. The L.A. Times test.

Mr. LIGHT. I don't know how many people you should have, but I think you can finance the Office of Management with a simple tax on the contracts that are currently being let for management analysis across the rest of Government. Ask for 1 percent of the $10 to $15 billion that is currently being spent on consulting of one kind or another and you produce a little surplus, actually, on this activity.

Mr. HORN. That is an interesting idea. I'm sure Mr. Kasich will be glad to hear about it.

Mr. GILMOUR. Mr. Chairman, I don't have a tax proposal for you. That is certainly an intriguing one. It strikes me, though, along with others testifying here, that we are really interested—if we are interested in management policy, helping the agencies to develop management policy and moving beyond the agencies to the State and local governments and other entities that are now doing the Federal Government's work, helping them with management policy, that really suggests a small agency. There are a number of mandates that you have talked about and your discussion draft has in setting priorities to go after specific of those.

Mr. HORN. Well, let me just ask you, are there any other issues you think should be before us that we either haven't had from another witness or we've asked no questions about? Because I'd like to round this out.

Let's just go down the line. Dr. Ink.

Mr. INK. I would hope, as you proceed, that you have an opportunity to go into greater depth with respect to the outside Washington dimension of how Government functions and the managerial tools and techniques that are needed to make Government function effectively from the perspective of people out in Long Beach and around the country, not just from Washington.

Because one of the problems of the budget process is that it tends to focus on the perspective of Washington. It tends to, I think, reduce flexibility and ability to respond to the needs of an ever-changing, dynamic society.

Second, I don't worry about the issue of clout, because I think there is clout. There are a whole series of ways in which management can have clout. Some of them are restoring what they used to have, such as the drafting and clearance of Presidential Executive orders, the issuance of the orders out of this Office of Management, the clearance of text of legislation, the participation in the planning of programs from a managerial standpoint, the workability of proposed programs, the outreach to the field, the outreach to Congress.

I used to testify before a whole series of committees in Congress, and when a new director of the Bureau of the Budget came in, it wasn't the budget people that introduced him to the chairman of the Appropriations Committee, it was me on the management side. Because we on the management side had those kinds of relationships with both the majority and minority leadership in Congress.

Mr. HORN. Want to add anything, Mr. Wright?

Mr. WRIGHT. Mr. Chairman, I would like to put into context of what the budget process really is. It is a process of communication between the President and the Congress and back to the agencies. It is a communication vehicle. It is also how much things cost.

But, beyond that, it's saying what you want to do, what are your policies and what are your priorities. And, unfortunately, it takes on the context of that's all we do. It's not all that's done, and that happens to have developed into the way that communication is conducted between our branches.

Now, having said that, OMB—and it's not just because of the fact that I am from there and I support them—doesn't always do things in the best way. But they're doing what they've been asked to do, and they're doing exactly what they have to in responding to the urgency of the moment.

So I would just suggest, when you are doing this, that you give OMB a chance to come in and work within a fairly structured set of goals and give a proposal as to how they would accomplish what you think should be done. And if you don't like it you can bring in panels like this one to argue with them. They are used to arguing. They like fights. That's the way they spend their life.

If you don't like it, then that's fine. But I would suggest that a real option to do that with a beefed-up OMB that knows exactly what the Congress wants them to do on a long-term basis and phase it in over 10 years.

Mr. HORN. Dr. Light, how about that? What do you think about that?

Mr. LIGHT. I'd recommend that you give OMB a choice, either support the OFM—or OM—or spend a year on a desert island with Dwight Ink, and they will come around to your position in a hurry. I have nothing else to add here.

Mr. GILMOUR. Mr. Chairman, one of the things that has been mentioned in passing but deserves some underscoring is the importance of the relationship between the management function in the Executive Office of the President and the Congress. Congress is so deeply involved now in implementation—the pejorative term is "micromanagement." But in a major study that NAPA did a few years back it was clear and rather surprising to a number involved that Congress was deeply involved in management implementation issues primarily because there were failures in management, and serious management difficulties. That will always be the case. Where there is a vacuum, Congress will fill it.

Why not anticipate, then, management difficulties with an Office of Management? And have that office, in part, reporting—as, in fact, OMB did report to the Congress on management matters back in the 1980's—but report according to priorities, work with the Congress and with this committee and its counterpart so as to keep a hand on the pulse of management issues before they become management crises.

Mr. HORN. Very good.

I had exactly your views, Mr. Wright. I testified on the Budget Act in 1974, and I've known people down there ever since Eisenhower, and I've known a few Truman holdovers. And it is clear to me that, while I was an enthusiast for thinking that putting the "M" in OMB would solve the problem, it hasn't happened.

It doesn't matter how many goals you give them. You have got one big bureaucracy driven by a $5.3 trillion national debt. That is full-time work. You have got a budget to be balanced every year. That's full-time work.

The fact is, the management has just not been there. That is not one of the priorities. It shouldn't be. There are completely different types of people. A President should get to head OMB if management is to stay there, because management isn't doing much, and they haven't tackled some of the real problems. Nothing to do with party or nothing to do with ideologies, as I said earlier.

It seems to me that the President needs to have tools that he can use to perform his function as the Chief Executive of the United States, and the President doesn't have those tools. The question is, How do we give him those tools?

The Nixon system simply hasn't worked. And you might have one or two little teeny weeny things you can cite to me. That isn't enough in a complicated Government that has thousands of problems out there in terms of the implementation, the delivery of programs for the average citizen.

What we see in New Zealand and Australia, we haven't done halfway what they have done. Granted, they are very small governments. The State of Oregon is doing what we should be doing in terms of figuring out with various programs, working with agency heads which would help make sure that people—that there are benchmarks; are these programs working or aren't they? That is very important.

That is not just a budget question, though. It is a management question. The budget examiner's role, we don't want to mess around with. But we do want some people that the President can call on when he thinks he has some real program problems, and the early warning is a good example.

I remember Hubert Humphrey and I talking about that in the late 1960's on a TV show we did. And early warning is exactly what a good executive needs and somebody to tell him the bad news or tell somebody that can do it—the White House Chief of Staff perhaps.

But, some of you mentioned, the legislative clearance function. That is absolutely essential for both the Office of Budget and the Office of Management, and that has been the way Presidents have imposed their will. They're the people that were elected, not the staff. And when you say is it in accord with the program of the President or isn't it? And if they want to get something done, they can do something in that message to the Congress.

Mr. WRIGHT. Mr. Chairman, first of all, I totally agree with your goals and objectives—have for many years. You know, you could actually make the Office of Budget report to the Office of Management. The budget is simply how much does it cost to get your management goals done. That's a different idea.

And now I'm going to have everybody mad at me over at my old agency. But I totally agree with your objectives. I think it's just the way that you get the process done and that the President needs that.

Mr. HORN. That's why I thought Nixon's thing was a good chance. But, for the reasons said here, there's a culture there and there's pressures there that they aren't going to get into management problems when it's enough difficulty for the day, a good 18-hour day for a lot of those individuals down there, a very fine group, that it just isn't working. That is the problem.

Mr. INK. Mr. Chairman, I had responsibility for drafting that Nixon reorganization plan. I had responsibility for selling it to Congress. And there were some Members of Congress, including the chairman of this full committee, who said I was wrong, and I was wrong. It was not the way to go.

Mr. HORN. Confession is good for the soul. If Mao was only here, we would be out in the field.

Anyway, thank you all for coming; and we appreciate it. I thank my colleague.

Let's just thank the staff that arranged this.

J. Russell George, the staff director and chief counsel of the subcommittee; Bob Aloway on my left, your right, the professional staff member specifically responsible; Matthew Ebert, the clerk; Mason Alinger, the staff assistant.

For the minority, Faith Weiss, the counsel; Earley Green, staff assistant; and Jean Gosa, clerk for the minority.

And our court reporters, Joe Strickland and Judi Mazur.

And we thank you all.

[Whereupon, at 12:21 p.m., the subcommittee was adjourned.]

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