MEMOS *to* National Leaders

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TABLE OF CONTENTS

ACKNOWLEDGEMENTS

We are pleased to present this final set of memoranda to our national leaders, from the National Academy of Public Administration (the Academy) and the American Society for Public Administration (ASPA). This project continues a tradition of reports outlining major issues facing new leaders following national elections.

The period following the 2012 elections for the President and Congress provided the potential for reflection about the long term challenges facing leaders across our governing institutions. While national leaders are preoccupied with a range of short term crises and 'cliffs,' this report addresses longer term challenges facing national policymakers and managers. Unlike previous initiatives, these memos are addressed to both the President and Congress, recognizing the need for joint ownership and action on our major challenges.

There are nine memos to national leaders, as well as a capstone memo summarizing the central themes cutting across the entire initiative. The nine areas are:

- Rationalizing the Intergovernmental System
- Strengthening the Federal Budget Process
- Administrative Leadership
- Strengthening the Federal Workforce
- Next Steps in Improving Performance
- Managing Big Initiatives
- Information Technology and Transparency
- Managing Large Task Public-Private Partnerships
- Reorganization of Government

The process began with the establishment of a steering committee, coordinated by Academy Board Member and former ASPA President, Paul Posner. The committee features both Academy Fellows and ASPA members and was assembled specifically to address nine critical management areas at ASPA's conference in March 2012. The steering committee was then expanded to bring in others with a strong history and background on the presidential transition process. Members of this committee include: Judy England-Joseph, John Kamensky, Martha Joynt-Kumar, Steve Redburn and Allan Rosenbaum.

Over the course of this project, we have had the benefit of four well-publicized launch events showcasing each individual *Memo*. These events would not have been possible without the authors of the nine *Memos*, and all those involved in making this project possible: Allison Fahrenkopf Brigati, Nicole Camarillo, and Jonathan Wigginton from the Academy's staff, and Melissa Williams and David Brownstein from ASPA. We would also like to especially thank Paul Posner, for assembling some of the nation's top management and public administration minds, and bringing the *Memos to National Leaders* project to fruition.

We also extend a special thank you to the individuals who were so helpful in the research, review and writing of the actual memos. We are grateful for their time and contributions to this project. Below are a list of those individuals and the memos on which they assisted.

Our memo *Rationalizing the Intergovernmental System* was authored by Allan Rosenbaum, Parris Glendening, Paul Posner and Timothy Conlan.

Strengthening the Federal Budget Process was written by Paul Posner, Steven Redburn, Phillip Joyce and Roy Meyers.

Administrative Leadership: Fixing the Appointments Process was written by James Pfiffner, Dwight Ink, David Lewis and Anne O'Connell.

Strengthening the Federal Workforce was authored by Stephen Condrey, Rex Facer and Jared Llorens. The authors are grateful for the insight provided by John Crum, Justin Johnson, Colleen Kelley, Montgomery VanWart, John Palguta, Howard Risher, Christine Rush and Jacqueline Simon.

While *Next Steps in Improving Performance* was written by Donald Moynihan with assistance from Mark Bussow, Clinton Brass, Dustin Brown, Elizabeth Curda, Matthew Dull, Phillip Joyce, Philip Kangas, Shelley Metzenbaum, Christopher Mihm, Kathryn Newcomer, Steven Redburn and Robert Shea.

Managing Big Initiatives was authored by Dwight Ink, John Kamensky and Harry Lambright.

Our memo on *IT and Transparency* was authored by Alan Balutis, Gary Bass, Daniel Chenok, Frank Reeder and Alan Shark.

Managing Large Task Public-Private Partnerships was written by Mark Pisano and Rich Callahan who were assisted by Alan Abramson, Jack Basso, Tom Downs, Wendy Haynes and Pat Dalton. *Reorganization of Government* was written by Allen Lomax with assistance from Dwight Ink and Ambassador Eward Marks.

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Best Wishes,

Dan G. Blair
President and CEO
National Academy of Public Administration

Antoinette Samuel
Executive Director
American Society for Public Administration

INTRODUCTION

Governing for the Next Four Years

The President and Congress face a daunting set of challenges. As difficult as modern campaigns have become, the governance challenges may very well prove even more vexing. Our elected leaders must deliver on ever higher expectations from a restive public by managing an ever more complex range of programs, doing so within flat or declining levels of budgets in a political context that is as divisive and challenging as any in recent memory.

The transition for the President and Congress following the 2012 elections provided the potential for reflection about the long term challenges facing leaders across our governing institutions. Given the growing range of problems crowding government's agenda, such a pause is much needed. However, in the first half of 2013, the promise of transition has been eclipsed by a series of crises and "cliffs" as national leaders have become preoccupied with keeping the government funded, preventing a potential debt default, and protecting the economy from automatic fiscal actions such as the expiration of major tax-cuts that could have widespread repercussions for families and businesses throughout the nation. Dealing with painful budget sequesters affecting most agencies of government have given rise to yet another crisis, as Congress and the President debate what deep cuts should be imposed in the current fiscal year.

What gets lost in a crisis-oriented government is a vision of the long term goals and challenges facing government today and in the future. This book is dedicated to prompting a much needed debate over the nature of those challenges and the reforms in government that are needed to address the emerging problems facing our system.

Public service professionals, acting through the National Academy of Public Administration (the Academy) and the American Society for Public Administration (ASPA), have long felt a responsibility to provide advice and counsel to incoming Administrations, drawing on the considerable institutional knowledge possessed by current and former public servants and academic students of public governance at all levels. We do so without regard to party or politics, but with an appreciation drawn from personal experience for the environment in which public leaders and administrators work.

The impetus for this cycle's project came from a series of previous initiatives, beginning in 2000. That year, a set of Memoranda were written to the President by leaders from such organizations as the Academy and ASPA providing advice on a variety of issues facing the nation. The leaders of the two public administration organizations decided that the complex problems and issues facing our system once again called for bringing together the substantial institutional knowledge of Academy Fellows and ASPA members to inform the nation about the major management and budget challenges facing a new Administration and Congress. Here, we provide an overview of those challenges and our recommended responses.

The Governance Challenges

As the pace of change accelerates in every aspect of American life, government is faced with multiplying and ever more complex challenges. The demographic pressures of aging and immigration, accelerating science and technological changes, and emergent asymmetric security threats are just some of the challenges placed on government's doorstep. Yet, while expectations for government have increased, doubts about the capabilities of government to rise to these new challenges and deliver effective programs have grown as well.

The public's ambivalence and conflict over government is most clearly reflected in the fiscal challenges facing all levels of government in our system. Leaders at all levels will have to find ways to meet the emerging demands for government while at the same time resolving structural fiscal deficits that are projected to remain as a cloud over public finances for years to come. With a population projected to continue growing, albeit at a slower pace than before, it is unreasonable to expect that the nation will stand still while federal, state, and local deficit problems are solved. Thus, it is likely that government leaders at all levels will have to perennially entertain spending cuts and revenue hikes not only to reduce debt and economic pressures, but to free up new resources for new investments in infrastructure, social policy and other emerging needs.

Going forward, government leaders and managers face a series of daunting challenges that will have to be overcome if the nation is to achieve effective public service performance. These stem from the clash between the growing reach and promises of government programs and limitations on government's capacity stemming from a wide range of political, financial, technical and management constraints. The following challenges confront and confound national leaders as they attempt to respond to emerging public demands on government:

- **The growing complexity of the problems we face** — The most daunting and expensive problems such as health care and financial regulation raise complex tradeoffs, involving deep seated competing values and interests. Health care costs could be constrained by establishing a global budget constraint, for instance, but possibly at the price of limiting access to health care or specific doctors and treatments. Curbing the growing reliance on tax expenditures may promote economic efficiency and reduce the growing federal debt, but only by threatening benefits that have become capitalized into markets and broad segments of the economy.

- **The polarization among political leaders** — Our separation of powers system has always required negotiation and collaboration among leaders across parties and branches of government. However, growing polarization across parties increasingly complicates that collaboration and threatens the capacity to govern – jeopardizing the nation's ability to resolve its fiscal challenges, staff top positions in executive agencies, or even to borrow as needed to pay the nation's public obligations.

- **The need for foresight** — Delay and gridlock stemming from polarization and other forces hamper our ability to resolve such long-term problems as structural deficits and global warming, whose consequences and impacts are projected to grow exponentially if ignored. Reforming policies and implementing the necessary adjustments before the otherwise inevitable crisis occurs will enable our generation and those that follow to control these problems before they control us. If done sooner, policy changes can be phased in over time, giving families and businesses alike sufficient time to adapt and plan. Waiting until a crisis occurs, on the other hand, will entail precipitous actions that will bring pain and disruption to current and future generations alike.

- **The limited reach of direct government** — While the federal government is held responsible for achieving a broad range of objectives, the government is increasingly dependent on other actors in the public and private sectors to deliver major national programs, whether it be environmental protection, health care or infrastructure. As the role of government grows, so does its reliance on its partners. With few exceptions, the growth of the federal role in public policy has been characterized by uploading promises by federal officials and downloading of responsibilities to other levels of government and sectors of the economy. Managing through partnerships is inherently challenging, as conflicting values among partners must be overcome to achieve common national endeavors.

- **The public transparency of governance** — The implications of these complex shared governance arrangements for public confidence and transparency is an emerging area of concern. With so many hands in the public sector delivery system, it is difficult for publics to assign credit or blame and to clearly understand how government is affecting their lives. The obscurity or unintelligibility of government's workings is increased as public officials turn to more indirect governance tools. Tax expenditures, for instance, with $1.3 trillion in revenues lost per year, now exceed discretionary spending in magnitude; yet the public has limited understanding of how these subsidies work to promote national objectives.

- **The concern about social equity** — Good governance is not just about cost-effective use of resources. It is also about ensuring that programs are designed and administered in a way that treats people fairly, ensures them equal access to public benefits, and promotes equal opportunity and social justice. The concern for social equity is not only a national priority in its own right but must be integral to all efforts to strengthen the federal government's capacity to address the full range of national priorities. Growing economic inequality and chronic poverty highlight the responsibility of national leaders and administrators to address this concern.

In these memos, various authors outline sets of bold actions that can and should be taken by the next President and Congress to deal with these challenges and to strengthen government's performance. This transition initiative is dedicated to the proposition that, while putting out numerous "fires," our leaders must look beyond the urgent to develop smart, sustainable solutions for the important longer term problems facing our country.

Actions Needed to Improve the Governance and Performance

The memos will cover the following nine areas corresponding with the governance challenges discussed earlier:

1. Rationalizing the Intergovernmental System (Chair: Allan Rosenbaum)

2. Strengthening the Federal Budget Process (Chair: Steven Redburn)

3. Administrative Leadership (Chair: James Pfiffner)

4. Strengthening the Federal Workforce (Chair: Stephen Condrey)

5. Next Steps in Improving Performance (Chair: Donald Moynihan)

6. Managing Big Initiatives (Chair: John Kamensky)

7. Information Technology (IT) and Transparency (Chair: Alan Balutis)

8. Managing Large Task Public – Private Partnerships (Chair: Mark Pisano)

9. Reorganization of Government (Chair: Allen Lomax)

Taken together, the memos chart a path for improving the federal government's capacity for governance of a complex nation and global economy. They collectively point to the following opportunities for improving our capacity to govern and manage for the 21st Century.

Strategic Governance

Achieving any important public goal, from food safety to reducing homelessness, typically calls on the resources of numerous programs across many agencies and levels of government. However, our budget and policy processes are generally stove-piped, considering each program in isolation, leaving a plethora of similar programs addressing similar objectives. Promoting a more strategic focus on the broad outcomes achieved by portfolios of government programs is essential to bringing about improvements in broad public outcomes. The budget formulation process itself must have the capacity to transcend the narrow focus on specific programs and agencies to address how portfolios of programs and tools contribute to policy goals. Assessing the coherence of all related policy tools to ascertain whether they are aligned and relevant for a changing society will be a critical task in rethinking and updating the federal government's role.

The memos call for strategic budget reviews that rigorously examine the full portfolio of current federal programs cutting across multiple agencies and departments, including tax expenditures. These reviews also should examine the contributions of states, communities and others to achievement of the objective. Each review should include representatives of non-federal partners and should be conducted with full transparency, public hearings and input from all stakeholders.

The memos also call for enhanced focus on reorganization and program consolidation and rationalization. This would include exploring program consolidation, agency reorganization and "virtual consolidations" through stronger interagency collaborations and councils. Given the high barriers to giving up "turf" throughout government, we call for the convening of a new high level commission to identify opportunities, with fast track consideration of recommendations by the Congress. Recognizing that the best executive strategic plans and reorganizations are ultimately dependent on congressional approval or forbearance, we conclude with a call for a thorough congressional review of committee structures.

Government's Capacity to Manage

The greater complexity and stakes associated with government management is a clarion call for the best and brightest to join the public service. The federal government is ripe for a new influx of talent, thanks to the accelerating retirement of the baby boom generation from the federal workforce.

However, government still faces numerous challenges in attracting and motivating a talented workforce. The federal hiring process is still slower and less responsive than those in private firms, increasing the risk of losing even well motivated new workers to other employers. Federal compensation is not as flexible or performance-focused as other private competitors, prompting agencies to seek flexibility to experiment with broad banding and special salary schedules. Developing new compensation schemes will become ever more difficult as federal agencies face the consequences of austerity. The memos outline useful reforms in federal pay, recruitment and training to help.

Political appointees at top policy-making positions are central to presidential leadership and electoral accountability, but the political appointment process needs reform and restructuring. Instability and uncertainty are characteristic of the top layer of agency leaders, thanks to an overly lengthy appointments process and truncated terms served by many officials who finally get confirmed. Moreover, the proliferation of appointees has led to excessive layering of political leaders, with policy formulation and management decisions increasingly subordinated to political officials, limiting the influence and control of senior civil servants. There is a need to rationalize the roles of political appointees and senior civil servants, reducing the numbers of political appointees filling management positions that can best be served by career managers.

Improving the capacity to manage is particularly critical for major Administration initiatives and emergencies where time is urgent and the stakes are high. In reviewing the history of initiatives such as Y2K and the Recovery Act, we recommend a stand-by cadre of senior executives who can be marshaled to respond to urgent national policy challenges when called on by the President.

Governing Across Boundaries

The federal government is increasingly reliant on state and local governments and the private sector as the real street level bureaucrats in our system. Whether it be expanding health care coverage or resolving the housing finance crisis, effective national programs will call for a concerted effort by all three levels of government as well as key private sector leaders responsible for critical infrastructure and resources.

Our memos on intergovernmental management and public-private collaboration both point to the need to enhance the federal capacity to engage with partners in achieving public policy objectives. Successful partnerships will entail refocusing accountability and metrics to capture a more integrated perspective on the efforts and accomplishments achieved by all actors working in partnerships across conventional governmental or sectorial boundaries.

New mechanisms and processes can facilitate collaboration across sectors. In the intergovernmental arena, we recommend that a new advisory council on intergovernmental relations be established to provide a forum for dialogue and collaborations among leaders across the levels of government. In the public-private arena, we suggest increased use of public benefit corporations to marshal private resources in support of public goals, buttressed by a new council and other arrangements to monitor and manage the risks of such engagements for the federal budget.

Accountability and Transparency

As the national government takes on more objectives and becomes the target for the expectations of the nation for critical public services, a greater emphasis will have to be placed on assessing how well far-flung government programs have achieved the ambitious objectives assigned to them by Congress and the President. The memo on information transparency provides specific recommendations for government leaders to improve the engagement of citizens with government. However, all of the recommendations have the potential of improving the legitimacy and credibility of government with the public.

While there is no single bottom line to capture government's contributions, performance outcomes come closest to providing a report card on the value the nation is obtaining from its government. Given the highly decentralized and collaborative approaches used to engage other sectors in program implementation, measures of performance outcomes offer a critical path for understanding how governments and private parties throughout the nation are collectively achieving such complex goals as education quality and health care coverage. Building on the current Administration's performance.gov initiative, citizens need to be given easier and expanded access to evidence of how well government is carrying out its responsibilities and progress in achieving important national goals.

Developing valid outcomes and goals for government is a long term enterprise, fraught with political sensitivity and disagreements. While government agencies have been making some progress in developing measures since the 1993 passage of the Government Performance and Results Act, important and controversial questions remain about what role they might play in allocating and managing resources by agencies and the Congress itself.

Resolving Fiscal Challenges

The governance challenges discussed above have become more daunting due to the new era of austerity that has gripped all levels of government in our system. With deficits over seven percent of the economy, the federal government will be facing increasing pressure to resolve deficits, just as state and local governments have been doing the past several years. While the superior borrowing capacity has stemmed the sense of urgency at the federal level, pressure will accelerate with the acceleration of the retirement of the baby boom generation and continued unsustainable growth of health care costs. The deficits of today will become unsustainable in the next several decades as an aging nation faces the twin challenges of higher entitlement costs and shower growing revenues stemming from declining workforce growth.

Facing up to the hard choices necessary sooner rather than later is the key to reducing the disruption facing current and future generations. Policymakers and government managers alike will face the wrenching challenge of delivering on the expectations that Americans hold for federal programs with fewer resources. At some point, fiscal retrenchment may force a day of reckoning for our entire federal system, as all levels of government seek a new equilibrium in public finance which will most likely involve both fundamental tax reform and changes to the social compact underlying key federal entitlement programs.

Major institutional reforms are needed in the federal budget process to enable needed fiscal actions to be addressed. The current process has seized up and is barely able to secure appropriations needed to keep the government running at current levels, let alone dealing with the hard choices necessary to right the fiscal course of the nation. We recommend a series of reforms that would strengthen the capacity of the Congress to budget by strengthening the role of the budget committees in setting fiscal targets to guide fiscal deliberations and in mobilizing all relevant committees to develop necessary reforms to reach a more sustainable fiscal future. We also suggest reforms to encourage greater fiscal collaboration between the President and the Congress, starting with a joint budget resolution to start the budget process each year that would require both institutions to agree on broad fiscal targets and policies.

We also suggest greater fiscal collaboration across governments in our system. While the federal government has often played a role in tempering the effects of the business cycle on state and local finance, the specter of deficits now looms over not only the federal government but its state and local government partners as well. We are concerned that, absent institutional collaboration, each level of government might pursue zero-sum solutions that lighten its own balance sheet by shifting costs or limiting revenues for other levels of government. Accordingly, we have recommended a joint approach to fiscal policymaking, involving state and local leaders as partners in such projects as federal tax reform or further health reform. Nothing will exacerbate the public's weak confidence in government than a spate of fiscal finger pointing by leaders across our federal system transferring not only costs but blame to other officials.

Conclusion

Collectively, the recommendations in these memos would better equip leaders and managers alike to come to grip with the complex problems placed on government's agenda. They would also enable government, working with other sectors, to improve our collective capacity to address the public's high expectations for their government. Enhancing our capacity to deliver higher levels of performance is important, but even more important is stemming the perennial public disaffection with government and their leaders. Ultimately, public confidence is the key to successful governance and management of any public policy initiative. We believe the many practical actions recommended in these memos will help our national leaders succeed in delivering on their promises over the next four years and restoring the public's faith in the process of governance in our system.

RATIONALIZING THE INTERGOVERNMENTAL SYSTEM

By Allan Rosenbaum, Parris Glendening, Paul Posner and Tim Conlan

The American intergovernmental system was one of the great institutional inventions of the country's Founding Fathers. It serves many purposes ranging from facilitating our democracy through the dispersal of political power, to enabling individuals in local communities to more carefully and strategically address the many problems that exist in a complex society. That this system has played a major role in facilitating the building and development of the American nation goes without saying. Nevertheless, this is a system that is currently in a state of crisis - in part because it has worked so effectively for so long that often little or no attention is paid to it. This is highly unfortunate since the American governmental system is an interlocking one in which the actions of each level impact upon each of the others.

Today, more than ever, the intergovernmental system faces multiple highly complex challenges. Many of these challenges are driven by fiscal factors, but not all of them. Political and administrative conflict, exacerbated by a highly polarized political environment, has dramatically lessened the capacity of the system for cooperation at a time when collaboration is desperately needed. While many proposals are being put forward to address the problems faced at the federal, state and local levels of government, rarely do those proposals recognize that they are highly dependent for successful implementation on circumstances that are often predetermined at another level of government.

To help the next Administration, the next Congress and our state and local governmental leaders to more effectively address these issues, a group of four individuals with long experience both studying and participating in the American governmental system has prepared the following memo. These individuals have held senior positions in local, national and state government and have also written extensively about intergovernmental relations in the United States and abroad. The memo on "America's Invisible Intergovernmental Crisis" provides important recommendations for reinvigorating the American intergovernmental system and the nation itself. Most significant in this regard are the calls for a joint federal, state and local reassessment of the nation's tax policies with a focus upon the introduction of additional revenues such as a shared consumption tax and the need for the establishment of an institutional mechanism to facilitate intergovernmental collaboration.

MEMO 1: AMERICA'S INVISIBLE GOVERNMENTAL CRISIS: Intergovernmental Relations in a Time of Transition and Uncertainty

From: ***Allan Rosenbaum, Parris Glendening, Paul Posner and Tim Colan***

The evidence of the serious problems, indeed the crisis, of the American intergovernmental system is everywhere. Whether it is Senator Lamar Alexander calling, in a *Wall Street Journal* op-ed piece, for a grand exchange by the federal and state governments of responsibilities for education and health policy as a means to help solve critical state financial problems or news stories reporting municipal bankruptcies, the evidence of the problems are all around us.

Serious research studies point that the fiscal challenges of today are the harbinger of serious long term fiscal challenges affecting the entire sector. . The Government Accountability Office (GAO) has found that over the past few years state and local revenues have shrunk to the point that federal grants represent a bigger part of state and local government revenues than any single self-raised tax revenue source. Unless policies change significantly, states and localities are on a course in which, 50 years from now, health care expenditures will have become almost 50 percent of their budgets, as non-health care expenditures continue to decline dramatically.

Nevertheless, we are continually reminded that no individual governmental institution or set of institutional relationships is more important to public policy making and government service delivery for the American people than our complex intergovernmental system. For instance, the health reform law has vaulted states into the critical role in determining how many uninsured Americans will gain coverage based on their decisions on Medicaid expansion and health exchanges. Despite this reality, that system, in spite of how frequently it shapes and influences policy making and its outcome, is the most ignored and least paid attention to governmental element in contemporary American political life. Rarely does it receive serious attention from government officials. Almost never is it given major attention by the media and those few governmental institutions that have focused upon it have, or are in the process of, disappearing or becoming irrelevant.

The Intergovernmental System Faces Multiple Challenges

The administrative, political and fiscal challenges that confront the contemporary intergovernmental system are numerous. The administrative challenges confronting it involve both short and long term issues. In the short term, this includes coping administratively with the increased service demands of a weak economy and the dramatic personnel reductions which many state and local governments have been forced to implement. Longer term is the challenge of attracting and retaining a qualified public sector workforce in an aging society. This is even more exacerbated by the numerous, and sometimes severe, reductions in salary, health and pension benefits which in many instances have served to demoralize state and local employees. From a federal systems perspective, the long term decline of institutions with expertise on intergovernmental issues has diminished the system's capacity for sound decision making on intergovernmental policy and management issues.

From a political perspective, today's very high levels of partisan polarization is crippling the nation's ability to deal with budget, economic and social issues—or meet basic policy responsibilities in some cases. Increased political polarization is also affecting state level policy making. The hope that states might survive as oases of pragmatic governance in a polarized era is diminishing. Rather, polarization is increasingly affecting relations among all levels of government in health care, environmental policy and many other areas, thus making policy making and its implementation much more difficult.

Fiscally, all levels of government are facing huge long and short term fiscal challenges. At the national level, pressures on nondefense discretionary spending are intensifying with the adoption of budget caps and the potential for further cuts from sequestration. Future deficit reduction efforts are likely to increase these budgetary pressures even further, which will have significant consequences for federal grants in aid to state and local governments.

States, meanwhile, are still digging out of the deep fiscal hole caused by the Great Recession. While state budget outlooks are improving, the long term fiscal outlook for state revenue systems is clouded by the shrinking base of state sales tax systems, as well as growth of untaxed online sales and the service sector. On the expenditure side, GAO's analysis of the long term sustainability of state and local finances indicates that these governments, like the federal government, are on an unsustainable fiscal path due to rising health care costs and pensions which will necessitate significant policy changes. Finally, local revenue budgets continue to reflect the housing recession's impact on revenues. Because of lags in the assessment system, local property tax revenues are still declining and municipal bankruptcies are on the rise.

As they face up to these challenges, governments have several choices:

- **Go-it-alone** — each level of government pursues their own policies independently of other levels of government.
- **Fiscal offloading** — federal or state or local governments can off load their fiscal problems by passing them off to other governments in our system.
- **Institutional and fiscal collaboration** — governments can join together in developing common, win-win-win solutions to common problems.

A go-it-alone approach by each level of government will make the hard fiscal choices that much harder. Federal income and estate tax cuts, for instance, materially affected the revenues available to the vast majority of states whose income taxes are linked to the federal tax code. Going forward, state and local revenues will also be challenged by federal tax reform decisions, particularly if national leaders reduce availability of tax exempt bond financing and state and local tax deductibility. Conversely, state cuts in staff recently have affected such federal programs as disability determinations for social security which rely on states to help evaluate actions – a classic cooperative federalism program that is undermined by unilateral budget cuts.

Fiscal offloading includes the many unfunded and underfunded mandates and other shifts of costs to states and localities, as well as private sector and non-profit organizations, by the federal government. The Bush Administration's Real ID Act would have cost states $11 billion if they didn't fight back. Cuts in Medicaid are on the table in federal deficit reduction talks which could shift costs to states who have already struggled to fund their existing share of this federal matching program.

Go it alone and fiscal offloading strategies reflect a general lack of regard for the effects of policy on other government entities, resulting in higher costs as well as public confusion and skepticism about the effectiveness of government. The effects on state and local officials have been underscored as they struggle to meet higher costs induced by the federal government at a time of historic budget cutbacks.

Washington pays a price for going it alone as well. It gets substantial assistance from state and local partnerships in programs ranging from Medicaid, to transportation policy, to environmental protection, entailing shared resources and expertise. Unilateral federal actions jeopardize the state and local support and active partnership that is so essential to the successful implementation of nearly all federal domestic initiatives.

When all governments in our federal system suffer from common maladies, joint solutions would be preferable. Through fiscal collaboration, governments can join together in developing win-win solutions. For instance, Medicaid reform that involves reforms bringing down provider costs might be one area where federal and state governments have common fiscal interests that could be realized through intergovernmental collaboration. Another example of how such a process of fiscal collaboration might produce win-win outcomes involves tax policy. As noted earlier, since most states link their income tax systems to the federal tax code, a collaborative tax reform process could strengthen the revenue systems of both levels of government.

Should the nation seriously consider a consumption tax, or a value added tax (VAT), fiscal collaboration would be critical. The United States is the only major advanced nation without a national consumption tax. When compared with state sales taxes, a VAT has several advantages, including a national and international reach into the service economy and revenue potential that could go a long way toward filling fiscal gaps at all levels of government. Equity issues are always raised by consumption taxation, but these can be mitigated through targeted aid to lower income families and the exclusion of basic goods from taxation – common practices across the OECD nations.

The Current Outlook Is Dim

Notwithstanding the payoff from collaboration, our collective capacity to work together in developing common policies across our federal system has sunk to record lows. At the federal level, the following is a list of the intergovernmental institutions that existed in both Congress and the White House that had the capacity to examine and resolve intergovernmental conflict in 1980:

- Advisory Commission on Intergovernmental Relations
- OMB Division of Federal Assistance
- House and Senate Subcommittees on Intergovernmental Relations
- GAO unit on intergovernmental relations
- CBO state and local cost estimates

Today, there are only two of these institutions left: GAO's intergovernmental unit and CBO's state and local cost projections unit. The White House continues to have intergovernmental liaison offices but these are widely acknowledged to be short term fire fighters set up to gain political support for the President from state and local officials. We note, however, that OMB has taken the initiative to establish a Collaborative Forum drawing state and local officials input to test innovative approaches to improving state management of federally assisted programs. This Forum is managed in cooperation with NAPA (www.collaborativeforumonline.com).

State and local governments' capacity to work proactively with federal officials has also been weakened. Their interest groups in Washington are increasingly plagued by divisive polarization among their members that undermines their ability to even take positions on such measures as health reform and other important legislation affecting the federal system. This is in distinct contrast to other federal systems. Australia has quarterly meetings between national and state leaders, while Canada has semiannual conferences among these officials. While American Presidents, Governors and Mayors frequently talk about policies and ideas, rarely do they focus on the unglamorous role that our federal system plays in making this country work.

Comprehensive Federalism Reform Is Needed

The scale of both long and short term challenges has spurred some renewed interest in comprehensive policy reforms that will have significant impacts upon the federal system. Such reform initiatives can be explicitly focused on the intergovernmental system itself, as in the case of Alice Rivlin's proposal for a new sorting out of functional responsibilities and revenues between the national government and the states. Or, more commonly, may be implicit in various proposals for dramatic budgetary or tax reform. The latter includes proposals such as Rep. Paul Ryan's budget plan adopted by the U. S. House of Representatives, which, among other things, would convert Medicaid from an open ended matching grant into a capped federal block grant to the states. By capping federal obligations to what is currently the largest federal grant to state and local governments, and the third largest program in the federal budget and one of the largest in all state budgets, this plan would have major consequences for the financing and operation of the U.S. Federal system—consequences that are compounded by the plan's proposed long term cuts in federal discretionary spending.

By the same token, many proposals for comprehensive federal tax reform bear significant implications for state and local finance as well. Most such plans anticipate reducing or eliminating the federal deduction for state and local taxes as part of a larger strategy of broadening the federal tax base, and many anticipate major changes or elimination of the exclusion on interest on state and local bonds. Both these and other tax law changes would erode state and local governments' capacity to finance their own responsibilities in the federal system.

Politically, comprehensive reform proposals such as these tend to involve very high risks. All involve exceedingly complex issues of governmental finance, administrative capacity and political viability. But apart from their technical and administrative details, it is important to remember that they also involve core values in our political system. Many would significantly alter the intergovernmental system's capacity for assuring equal opportunities for all citizens, for encouraging state and local innovation and being responsive to the preferences of local constituencies.

First Steps in Reforms to Strengthen the Federal System

1. **Both emerging needs for public services and long term deficits must be addressed.**

   While the nation's intergovernmental crisis has many dimensions, at its heart is the absence of adequate revenue. For example, a recent OECD study points out that 30 years ago the US led the world in the percentage of 25-34 year olds possessing the equivalent of at least a two year degree. Most recent data shows that the US now lags behind 14 other countries in that measure of human resource capacity. Similarly, today 20 countries have higher High School graduation rates than the US. While this is occurring, states and localities in most parts of the country have been disinvesting in their educational systems and, in many cases, very significantly so.

While there are many explanatory factors, the most important one is the absence of adequate revenues. The Rockefeller Institute reports that state tax collections dropped by over 16 percent in just one quarter of 2009 and that by the end of 2010 they were barely at 2006 levels. Local governments are experiencing, as the Pew Center on the States has noted, the first time since 1980 the simultaneous decline of both state aid and property taxes. The increasingly long term recession has had parallel effects on federal revenues, which sunk to 15.1 percent of GDP – a level not seen since 1951. Since these declines have had significant impacts on both public services and debt, major tax reform is essential to address both emerging needs for public services as well as long term deficits at all levels of government.

2. **An intergovernmental tax reform initiative must be undertaken in a collaborative manner.**

There is a need for a national tax reform initiative that should include federal, state and local governments. While recent federal budget commissions have called for federal tax reform to simplify the tax code and raise revenue, we worry that such an effort could lead to further erosion of fiscal capacity of state and local partners in our federal system. A national intergovernmental tax reform initiative would be far more effective in giving serious consideration to important new revenue systems such as a national consumption tax. As other OECD nations have shown, a national consumption tax along the lines of a value added tax could provide significant advantages for the national economy both in terms of additional revenues and savings incentives. However, given the states' substantial investment in sales taxation, only an intergovernmental tax reform process can gain the support of states that will be critical to implementing much needed reforms.

3. **Create an intergovernmental policy council.**

The crisis of the federal system is not a short term one. The nature of the American governmental and political system guarantees that there will be continuing policy complexity and political conflict. This can and should not be ignored. It rather needs to be constantly monitored and, as necessary, proposals for adequate adjustment should be put forward in a timely and highly visible fashion.

Towards this end, the President should initiate an Intergovernmental Policy Council that is adequately staffed and meets at regular (at least quarterly) intervals to review, assess and advise on initiatives designed to enhance the American intergovernmental system. It should be bipartisan in nature. Half of its members should be appointed from the federal level of government, in part by the President and in part by the party leaders of the two Houses of Congress.

The remaining half of its membership should consist half of governors and half of mayors or other elected local government officials. There should be two ex-officio non-voting members drawn from the executive directors of the seven major state and local governmental associations. The Council should assume as its task the ongoing assessment of the effectiveness of programs which involve federal government participation and are implemented by state and local governments. It should also address the strengths and weaknesses of the intergovernmental system, and, in particular, the adequacy of the resources to achieve desired policy outcomes.

4. Immediately address reform in the grant system and personnel needs.

The Intergovernmental Policy Council should immediately begin to address the various issues that are central to the improvement of the effectiveness of the intergovernmental system. Towards that end, it should appoint working groups composed equally of national, state and local officials. Areas that should be addressed include:

- Grant reforms, such as program consolidation, improved grant management practice and block grants, to simplify an increasingly complex system characterized by over 900 separate categorical grants;

- Human resource policy reforms to help cope with the loss of experienced professionals in the public service and the effects of demographic change on service demands and public pension systems.

These working groups can build on recent progress made by OMB to institute an interagency Council on Financial Assistance Reform, an internal group of federal agency officials dedicated to improving the coordination and management of federal grant programs. The working groups we recommend would reconstitute this initiative to become an intergovernmental partnership, with representation from federal, state, local and nonprofit officials.

STRENGTHENING THE FEDERAL BUDGET PROCESS

By Paul Posner, Steven Redburn, Phillip Joyce and Roy Meyers

It is now widely understood that the federal government faces a large long-term mismatch between its policy commitments and its projected revenues. Closing this fiscal gap will, by all authoritative accounts, require hard choices to yield trillions of dollars in budget savings. Achieving these while sustaining the nation's highest public priorities, supporting robust and sustained economic growth, and dealing with inevitable emergencies and surprises will be difficult at best.

Soon after the fall elections the U.S. will approach a "fiscal cliff" which provides still another opportunity for negotiated agreements on large policy adjustments to address the long-term problem. Continued stalemate would trigger sudden across-the-board spending cuts and massive tax increases, pitching the nation back into recession and greatly complicating an already staggering political and fiscal challenge. Whatever budget savings are negotiated, whether on this or the far side of the fiscal cliff, must be implemented and sustained year by year through the federal government's budget process.

At this inopportune time, the federal government's budget process has virtually seized up. Routine decisions on annual discretionary spending are usually late, causing uncertainty and disruption. The largest parts of the budget, including revenue policy and entitlements, are on autopilot. Major decisions to reform the tax code and adjust spending priorities are blocked or deferred. Even if the familiar budget process were working smoothly, however, it would not be up to the tasks now facing us. The nation needs a new approach that is more far-sighted and strategic, more focused and disciplined.

To help the next Administration and the next Congress be better equipped to meet the fiscal challenge, a group of four expert observers of that process has prepared the attached set of memos. Each memo presents a set of Recommended Actions — both practical and bold – that deserve serious consideration in a necessary effort to repair and remake the federal budget process. Two of the *Memos to National Leaders* describe steps to expand the budget's time horizon and to help policy-makers act more strategically to meet the public's highest priorities while finding budget savings sufficient to put the federal budget on a sustainable path. The other two memos are directed, respectively, at the Executive Branch and Congress, and propose complementary changes to help streamline, focus and discipline budget decisions and to better fix responsibility for budget outcomes.

The Recommended Actions include:

1. Conducting selective strategic reviews of major spending and tax portfolios, supported by outside experts, to drive better use of resources for the nation's highest priorities.

2. Enacting a joint budget resolution annually that includes medium- and long-term targets for the debt and budget savings to reach the targets.

3. Enforcing Presidential accountability by requiring an annual fall address on the fiscal outlook and how his budget addresses it.

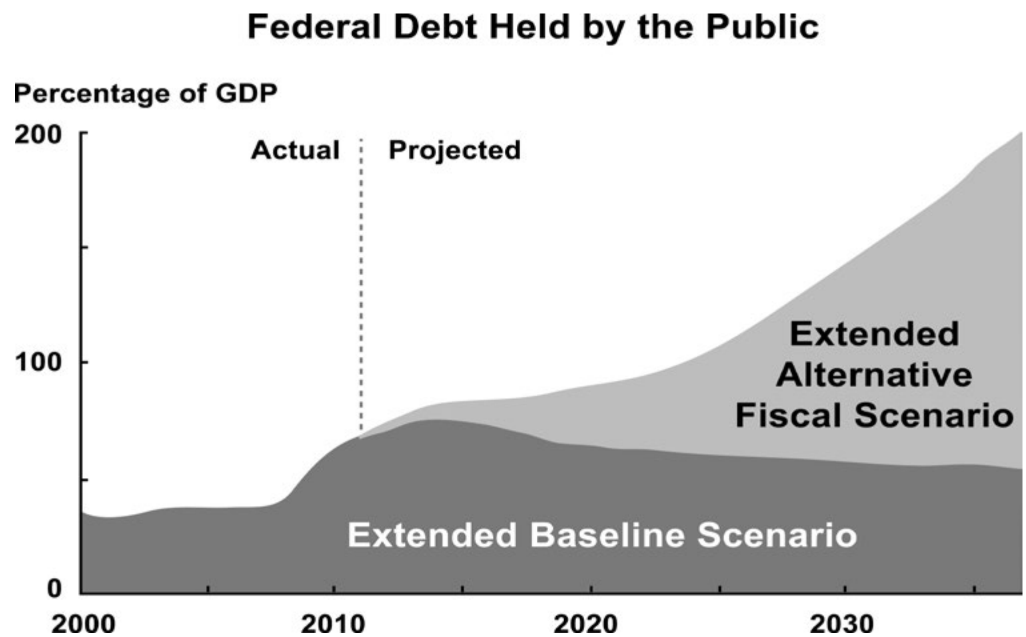
4. Making the budget committees leadership committees with power to enforce the budget resolution.
5. Using reconciliation procedures to enforce debt targets until the debt stabilizes.
6. Eliminating a separate vote to raise the debt ceiling.
7. Consolidating Congressional authorizing and appropriations committees.
8. Prohibiting use of Continuing Resolutions to delay appropriations.

MEMO 1: BUDGETING FOR THE LONG TERM, AVOIDING THE REAL FISCAL CLIFF

From: ***Paul Posner, Steven Redburn, Phillip Joyce and Roy Meyers***

The United States, along with most advanced nations, faces nearly unprecedented fiscal risks over the longer term. Even as the United States recovers from the current recession, an aging population and rising health care costs will, in the absence of policy changes, send the budget into a tailspin, with deficits and debt rising to unsustainable levels that would eventually cause an economic shock. As these spending pressures accumulate, a smaller cohort of workers will be left behind to finance these costs. Unless a longer view of the budget is adopted to address the problem of its long-term sustainability, Americans' standard of living will assuredly decline and the precipitous policy changes necessary to rescue the nation from economic meltdown will cause lasting damage to the political fabric of the nation.

The chart below from the Congressional Budget Office's (CBO) latest long-term outlook illustrates the nature of the long-term challenge. Under a likely extension of current policies, represented by the "extended alternative fiscal scenario," debt is projected to explode. In other words, the current course leads to deficits that would eventually be economically unsustainable, as rising government debt crowded out nearly all private investment and growth.



Economist Herbert Stein long ago suggested that if something is unsustainable, it will stop. But there is a corollary—how it stops matters. Will we see a gradual adjustment, or a rude shock caused by economic forces over which we will have little control? Achieving a more sustainable fiscal policy without such a shock requires early action. If started early enough, needed changes in spending and taxes can be phased in gradually, giving people and businesses time to adjust their plans and expectations.

The alternative is an unavoidable crisis, which will cause harm to current and future generations.

Such a crisis would force policy makers to make far more painful and precipitous policy changes than are required to meet the challenge now. Such a so-called "hard landing" has in fact occurred in other nations where financial markets lost confidence in fiscal and economic management.

The central question facing the U.S. system and those of other advanced nations dealing with similar fiscal outlooks is whether a democratic nation like ours can take proactive leadership before a crisis forces our hand. Unlike many nations in Europe, the U.S. does not face immediate pressures to undertake massive deficit reduction. We have the opportunity to phase in changes to entitlements and taxes that will take effect when the economy recovers sufficiently. Studies across the Organization for Economic Cooperation and Development (OECD) nations have shown that national leaders spearheading fiscal reforms increase their chances of getting reelected.

A Long-Term Approach to the Federal Budget

The budget process and institutions can be reformed to raise the salience of the long-term fiscal challenge and make it more difficult for policy makers to ignore the long-term implications of their decisions or their failure to act. Four sets of reforms can make a difference:

1. **Information** — The President should be expected to show how his fiscal policies will play out over the far horizon, and should be expected to say how much his policies will do to close the long-term fiscal gap. CBO should regularly assess and report on the impact of both the President's budget and proposed Congressional budget resolutions on the long-term fiscal outlook.

   More systematic information should be provided to the public on what the Government Accountability Office (GAO) calls "fiscal exposures" – a concept including traditional accounting liabilities such as federal debt as well as commitments such as Medicare and Social Security. [1]

   For selected programs that are considered firm commitments, long-term measures of the net present value of costs could be considered for inclusion in the budget itself, as is currently done for loan and loan guarantee programs. Such items as the accruing long-term costs for federal retiree pension and health care could be considered to be booked in the budget on an accrual basis; the long-term accruing costs of federal insurance subsidies for such areas as private pensions and deposit insurance are also amenable to this kind of noncash treatment. In these programs, the costs of what amounts to contracts are understated by a cash approach to budgeting. Accrual approaches to these items would record these longer term costs in the budget year when the commitments are actually made.

2. **Fiscal Goals** — The President and Congress should agree on fiscal goals as a starting point for work on the annual budget. This could be done by establishing targets for medium- and long-term deficits, levels of debt, fiscal gaps or other measures that could be widely understood and gain broad support. Other nations, such as New Zealand and Sweden, have managed to sustain budgetary surpluses for many years, thanks partly to their adoption of overall fiscal targets that serve to reframe debates by justifying fiscal sacrifice. Fiscal sustainability, like price stability and full employment, should be an explicit goal of national fiscal policy and economic management.

1 U.S. Govern ment Accountability Office, *Fiscal Exposures: Improving the Budgetary Focus on Long Term Costs and Uncertainties*, *GAO-03-213, January, 2003*

The use of a multi-year framework for budgeting is now an international standard and has proven useful in establishing a longer-term view and greater discipline. While other countries have adopted a hard "fiscal rule," such as a requirement that budgets be balanced over economic cycles, we do not believe such a mechanical rule is the best approach for the U.S. However, the Peterson-Pew Commission on Budget Reform has recommended setting a glide path to achieve a 60 percent debt to GDP ratio within a decade, a level far below the projected result of current policy. Adoption of this or a similar goal for the medium term would be both practical and helpful. Because the U.S., unlike many other nations, has failed to adopt an overarching fiscal goal or target, it has deprived leaders and voters of a key compass point as it conducts budget debates.

Medium- and long-term fiscal targets, and estimated budget savings to achieve them, should serve as a starting point for developing annual budgets in both the executive and Congressional phases of the process. In the latter phase, the budget resolution could be reformulated to enact a multi-year deficit reduction agreement to meet a pre-established debt target. The resolution would specify policy changes and spending caps consistent with the target and shape the work of other Congressional committees. As time goes by, the target can be adjusted as needed for changes in the economy, national security challenges, or other emergencies. The budget resolution would annually reaffirm Congressional commitment to reaching the target. Any budget resolution that did not comply with the law would be subject to points of order and backed up by sequestration if the points of order did not have their desired effect.

3. **Incentives** — Incentives such as points of order and triggers can help promote action on some of the major drivers of the long-term fiscal gap on both the spending and revenue sides of the budget. Designing points of order to inhibit the enactment of new long-term commitments is something that is well within our current policy traditions – in fact, the Senate has already incorporated such a point of order in its rules, requiring policies to be deficit neutral in each decade over the next forty years. However, we will need to go beyond restraints on new policies to prompt policy reforms in existing spending and revenue programs driving the long term outlook.

   Enforcement mechanisms can include *"soft triggers."* These would be linked to a benchmark policy goal, can prompt accountability by requiring Presidents and/or Congress to make an affirmative decision to either ignore the trigger or take some action to address it. Such triggers have been described as "speed bumps" because they permit determined majorities to ignore their blandishments, but provide leverage for leaders looking for a reason to act. Some also advocate *"hard triggers"* which, when a benchmark policy goal is exceeded, automatically institute specific policy reforms, either through spending cuts or revenue increases. Hard triggers for Social Security and Medicare were supported by a broad based coalition of budget experts from think tanks ranging from the Heritage Foundation to the Brookings Institution and Urban Institute. This proposal would seek, in effect, to cap these mandatory programs by setting limits on growth, enforced by automatic cuts in benefits and premiums, among other things, when exceeded.[2] An opposing coalition of liberal think tanks and experts argued that the proposal would shift risk from the government to weaker clients and would fail to also address tax expenditures whose growth is also jeopardizing the fiscal outlook.

2 Brookings-Heritage Fiscal Seminar, Taking Back Our Fiscal Future April, 2008

Spending ceilings accompanied by triggers and caps on the growth of automatic tax and spending programs would transform the nature of government's commitment from open-ended to resource-limited. Given the long-term challenge, it is time to change the presumption that the major share of spending and revenues should remain on automatic pilot.

Significant questions remain about how triggers can be designed to ensure accountability while also providing reasonable certainty and equity for families and businesses, particularly during downturns. Revenue triggers, which could take the form of surtaxes or delays in indexing and other scheduled revenue-reducing provisions, would present novel design challenges, as none have yet been developed, enacted, or applied. Congress has failed to observe its own triggers in the past when it was unable to resolve sensitive equity issues across programs – the failure of Gramm Rudman Hollings deficit triggers and Medicare doctor payments limits are two prominent examples. It is difficult to imagine that hard triggers will be politically sustainable absent major reforms to health care and other programs driving long-term growth of debt. Soft triggers are less controversial and a good place to start enforcing targets and limits.

Institutional Reforms

A long-term approach to the budget requires strengthening the central fiscal policymaking institutions for both the President and Congress. As other memos from this group have highlighted, the budget processes followed by Congress and the Executive Branch have split and divided decision-making. This has frustrated the thoughtful consideration of the nation's budget expenditures and revenues – the parts have often been stronger than the whole.

Addressing the long-term budget agenda will require central institutions for budget formulation able to steer change and shape resource decisions across a wide range of programs, committees and agencies. In Memo #2, we discuss strengthening the budget committees as a way to provide a longer-term and more strategic approach.

Recommended Actions

1. The President should be required to include in annual budgets a detailed analysis of the impact of his fiscal policies over two decades at least. The President also should provide specific budget proposals to close any projected long-term fiscal gap.

2. The Office of Management and Budget (OMB), GAO and CBO should prepare annual reports on "fiscal exposures", including the long-term costs of major social insurance and pension commitments.

3. Accruing costs for long-term commitments such as federal pensions and health care and federal insurance programs should be addressed as they arise and included in annual estimates of spending and deficits.

4. The President should propose and Congress enact medium- and long-term targets for the debt, as a starting point for estimating annual and multi-year budget savings required to achieve them.

5. The President and Congress should collaborate to develop soft triggers for both major entitlement and tax programs.

MEMO 2: BUDGETING STRATEGICALLY

From: ***Steven Redburn, Phillip Joyce, Roy Meyers and Paul Posner***

In the face of its greatest fiscal challenge, the federal government's budget process as we have known it since 1974 has collapsed. It seemingly cannot function in the face of wide partisan and ideological divisions that exacerbate the conflict already inherent in a system of shared and dispersed authority. The annual appropriations process designed to make detailed choices about hundreds of important programs has practically seized up. Bigger choices about how to slow health care spending growth, deal with unemployment and sluggish recovery, or reform a tax system widely regarded as unfair and a drag on growth are being deferred.

If we continue budgeting this way – cutting spending or raising new revenues without a careful eye to the Nation's long-term interests and the sustainability of its commitments – we risk a period of slow growth and austerity that could cripple all efforts and threaten our position in the world. If instead we manage fiscal challenges strategically, we will be able to more effectively reallocate public and private resources to growth-sustaining investments vital for long-term fiscal stability.

To make effective use of its limited public resources and to mobilize private investment to achieve its most important national objectives, the United States needs an approach to fiscal choice that is more strategic in its scope and capacity to prioritize. It needs a new, rigorous review process that analyzes the base of current resource use and alternatives using information on expected costs and returns to the economy over a long horizon. Put simply, given the hard choices ahead, the federal government needs to learn how to budget strategically.

To budget strategically means to direct resources to the highest priority policy objectives and to find the most effective and efficient means to realize those objectives. It requires being more far-sighted (see memo on "Budgeting for the Long Term"), taking into account the implications of current policy for the government's ability to meet future needs. And it requires taking a much broader view of the federal budget than we are used to. This way of approaching the federal budget would be a dramatic change from the current practice of enacting policies and appropriations piecemeal with little regard for the long-term costs or social benefits of those actions.

A strategic approach to budgeting requires a broader conception of what the budget is and does. Herbert Stein, former chair of the Council on Economic Advisors, once observed: "Sensible decisions about those expenditures can only be made after considering the total national provision for those purposes, and not just the federal provision." To correct serious omissions from the budget process, including regular review of tax expenditures and regulations, Stein proposed that "we should budget the . . . GNP [i.e., the entire economy] before we start budgeting [what] the federal government spends."

One benefit of a strategic approach is that it highlights non-budgetary ways—such as regulation—in which government influences allocation of national output. As an alternative to new spending, existing spending can be designed to be more productive by nudging or incentivizing major changes in non-federal policy and private behavior.

A strategic approach recognizes the complementary roles state and local governments and other federal partners play in shaping how society's resources are used. Most of what the federal government does to improve the environment, expand opportunities and provide health care for the poor, build infrastructure, bolster homeland security, or pursue many other policy goals is done through various partnerships, with a mix of federal and non-federal resources and people.

Budgeting will always remain a political process of balancing conflicting values, views of government and its role, and material interests. However, the process can be organized in a way that helps policymakers decide how to pursue their policy goals with better results through smarter allocation of limited resources.

We will know we are budgeting strategically when big commitments are made in a form that permits accountability for results and are backed by the resources and legislative authorities necessary for their achievement. Resources will have been reallocated on a large scale from low-priority, unproductive uses to high-return investments. Making such strategic choices will increase the productivity of federal investments and have an accelerating effect on the achievement of major improvements in Americans' well-being, opportunity, and personal safety, and the Nation's competitiveness, growth and security.

Toward a Strategic Approach

Considering where we are and the nature of our governing system and politics:

- How do we move to a budget process that is more strategic in its approach?
- How do we define and inform the main strategic choices and their expected returns with estimates of long-term benefits and costs?
- How can we organize and use that information to compare the effects of budget and policy alternatives and make better choices?

In short, what would a more strategic budget process look like if fully realized?

A strategic approach will require:

- New ways of organizing and using information;
- New decision methods; and
- Supportive reforms in both Presidential and Congressional processes.

What are some practical steps to move toward a more strategic way of budgeting? A set of new opportunities was provided by the GPRA Modernization Act of 2010 (P.L. 111-352). It requires the executive to identify selected "federal priority goals"—to improve policy outcomes that are the shared responsibility of more than one department or agency—and to plan and budget accordingly. Beginning with the FY 2013 budget process, the Obama Administration has begun to pilot this approach. After required consultations with key Congressional committees, OMB is given a mandate to set out the priority goals and designate a lead official responsible for each. Taken seriously and used boldly, this new authority could be the foundation for a more strategic approach.

To support strategic decisions and as a preamble to more detailed budget choices, those who lead the process will need to restructure much of the budget's decision-making around major enduring missions and long-term social goals. For each, a portfolio *of related spending, tax expenditures, legislative and regulatory man*dates, and other policy tools must be regularly updated to separate the substantive from the inconsequential. Analysis of costs and benefits must be rigorous and empirically grounded. For greater independence and rigor, Congressionally chartered institutions with a mission to provide technical and scientific policy advice—such as the National Academy of Public Administration and the National Research Council—could be tasked with analyses of the evidence on benefits and costs of alternatives.

With time and work, the information used to budget and keep account of both costs and results can be reorganized around priority national goals, and analysis extended to tax expenditures. Budget development can begin with prioritization of the many important goals that the federal government pursues, with metrics tied to a comprehensive set of social indicators. New structures of accountability can be established around each major (and many lesser) policy objectives. New procedures for systematic consultation between federal and state governments can be built for shared goals.

For its part, Congress must be prepared to revise and streamline its jurisdictional responsibilities in ways that facilitate integrated authorizations for and oversight of spending, tax expenditures and other policy tools for each major federal mission. As the Executive Branch is held accountable for performance, it must be given flexibility over the use of funds consistent with its explicit performance mandates and commitments. In Memos #3 and #4, we outline changes in the way the executive and legislative branches manage the annual budget process that would facilitate a more strategic approach and contribute in other ways to improved fiscal outcomes.

Budgeting more strategically will require not merely technical and organizational changes, but also a mental shift. We must learn to conduct our fiscal affairs in a larger way and over a long horizon, to focus as much attention on benefits as on costs, and to measure our fiscal commitments both by their sustainability and by their contribution to society's highest aspirations.

Recommended Actions

1. The new Administration, in consultation with leaders of the next Congress, should identify and announce a handful of high priority national objectives that will be the focus of strategic budget reviews over the coming year. The aim of each review should be to achieve a breakthrough in enhanced use of public and private resources to achieve ambitious improvements by specified dates toward a major policy objective – such as a more productive labor force; greater energy independence; or broad improvements in health, – while at the same time yielding budget savings as scored over a five-year period and or longer and social benefits far exceeding its costs.

2. Each strategic budget review should rigorously examine the full *portfolio* of current federal programs cutting across multiple agencies and departments, including tax expenditures. As alternatives to current or proposed spending, it should assess the potential use of regulations and other policy instruments to achieve a given objective. It should also examine the contributions of states, communities and others to achieving the objective.

3. The Administration should designate a leader responsible for convening and conducting each strategic review. Each review should include representatives of non-federal partners and should be conducted with full transparency, public hearings and input from all stakeholders. Expert panels of the National Research Council should be asked to review the evidence on the effectiveness and relative social returns from recommended changes in policy and resource use. Advice should be sought from the National Academy of Public Administration on effective implementation of the recommended strategy.

4. At the completion of each strategic budget review, the President's budget and legislative agenda for the next fiscal year should incorporate the first stages of a proposed reform estimated to achieve breakthrough returns and accelerated progress toward the priority goal.

5. Under renewed Presidential reorganization authority, Congress should give fast track consideration to any reorganization legislation required to implement the recommended strategy.

MEMO 3: STRENGTHENING THE PRESIDENT'S ROLE IN THE FEDERAL BUDGET PROCESS

From: ***Phillip Joyce, Roy Meyers, Paul Posner and Steven Redburn***

Article I of the Constitution grants "the power of the purse" to the legislative branch by requiring that all government spending be appropriated by Congress. This creates the potential for electoral accountability and responsiveness to the public on how the government spends money and on how the government finances spending through taxing and borrowing. Article II of the Constitution gives the President veto power over legislation and the responsibility to execute programs.

Because the Congress and the President share powers, they usually must compromise to enact legislation, including budgets. But sharing power also permits each branch to blame the other when they fail to compromise, a common practice in recent years. This memo discusses how granting the President slightly greater powers could increase accountability for achieving good budget outcomes.

In 1921, Congress strengthened the President's budgetary role by passing the Budget and Accounting Act. This law gave the President the responsibility to review executive agency budget requests and to propose a budget for the whole government. One motivation for giving the President this power was that since the President represents the whole country rather than just a small portion of it, a comprehensive budget proposed by the President could make necessary tradeoffs between competing interests.

While the executive budget power has not always been exercised responsibly, on balance Presidential budget proposals have provided useful policy and technical guidance to Congress. The executive branch has many highly skilled budget and finance personnel, and by international standards the transparency of government finances is high. Most recently, the executive branch has made significant progress in generating useful performance information and partially integrating that information with budget formulation.

Further empowering the President on the budget is a potentially attractive response to the current failures of federal budgeting to the extent that they stem from diffuse responsibility for budget outcomes. This shift of power can be approached in two very different ways.

One approach directly challenges the Madisonian design of our government by greatly reducing the power of Congress over the budget. For example, Congress could be prevented from increasing spending above the amounts requested by the President at the budget account level, which would require a constitutional amendment. Placing so much more power in the President's hands would enable the public to know whom to blame when policies were seen to fail or fall short. Some comparative research on government budgeting supports such an approach, finding that centralization of budget powers tends to reduce government debt.

We believe that this approach would not work in the U. S. It would never be acceptable to a country in which the legislature has had over two centuries of budgetary power. The system of checks and balances is widely seen as a fundamental protection against abusive or irresponsible use of power. And in fact, there is no guarantee that giving the President dominant power over the budget would prevent irresponsible behavior. We believe institutional checks on Presidential power are necessary to supplement any punishment voters might inflict on an incumbent President or that President's party.

A more transformative approach would be for the President and the administration to make a sustained effort at educating the public about the conditions faced by the nation, the goals adopted by the two branches, and the strategies carried out in hopes of meeting these goals. This is not done now in the annual State of the Union, which is just a long list of policy proposals and political claims by the President. Nor does the President's budget provide a sufficient description of conditions, goals, and strategies--in fact, even though the budget document concentrates on spending and tax proposals, its complexities make it generally incomprehensible to most Americans. It should be supplemented with a short "citizens' budget report" that communicates in plain English the budget realities facing the nation and the President's proposed responses. That report should be supported by a sustained effort to integrate, prioritize, and communicate the information already included in many valuable reports produced by government agencies. These reports, as well as the recent development of transparency websites that allow citizens to discover the details of individual government transactions, present citizens with information overload. If the budget process is to allocate prudently the government's limited resources, then citizens need a better understanding of the policy challenges faced by the nation. If the President takes the lead in summarizing these challenges, and the Congress weighs in with its own views, then there will be a better basis for debating different budget options.

We therefore propose a different approach that would shift the balance slightly in the President's favor, in ways that would remedy problems with the existing budget process. Five options are described below, in increasing order of importance.

Recommended Actions

1. Give the President the line-item veto or expedited rescission authority. The former would require amending the Constitution and is therefore not an immediate possibility; the latter could be achieved legislatively and is therefore feasible. Expedited rescission authority would allow the President to propose cancellation of individual provisions in enacted appropriations bills and require Congress to take up-or-down votes on those proposals. This power could be used by the President to highlight unjustified spending items that were enacted only because they were included in large appropriations bills, and prod Congress to reject this spending the second time around. However, this procedure would extend a process that already fails to meet deadlines. Presidents already have the capacity through Statements of Administration Policies to identify objectionable items, especially now that the Congress has prohibited the "airdropping" of earmarks into conference reports. If the experiences of governors with the item veto provide an accurate basis for estimating what could happen at the federal level, the practical effect of that veto on the nation's fiscal sustainability may be positive, but almost certainly will be small.

2. Begin the annual budget process with negotiated agreement between the President and Congress on a joint budget resolution. This would set in law each year the budget totals that are now supposed to be passed by the Congress in the form of a concurrent budget resolution. By making this process joint, requiring the President's assent, the Congress would no longer be able to pass bills based on its totals and pretend that the President's veto is politically meaningless--until the threat of a veto becomes real at the beginning of the fiscal year. Since the joint budget resolution

conforms best to the constitutional structure, early negotiations between the branches would allow them to reach compromises over the budget's major parameters, and then to move on to the many important details in appropriations, authorizations and reconciliation bills. Should the expectation that an early negotiation produce agreement on budget totals not be realized, the Congress could still pass a concurrent resolution as a backup procedure.

3. Require the President to propose budget modifications in particularly challenging sectors of the budget. This will require legislation. While the informational effect of the President's budget request is substantial, the Congress is not required procedurally to vote on its contents. An alternative would be to create fast-track procedures for selected areas, in which Presidential proposals would be guaranteed votes, with or without amendments. It could be used to give the President the responsibility to propose significant reorganizations of federal agencies and programs. GAO reports have documented substantial duplications and overlaps between programs that if reduced could save money. A reorganized executive branch, especially if matched by a reorganized Congress, would allow the government to make policies strategically and align those policies with budget allocations.

4. Convince the Congress to limit the extensive direction it now gives agencies about how they should spend money. This approach would take advantage of the substantially increased ability of the executive branch to report on its performance in attaining program goals. Despite this information, the Congress has continued to give agencies detailed directions in authorizations and appropriations bills about how and where money should be spent on specific inputs and activities. This practice can be justified when agencies abuse the discretion they are given by the Congress. But for other agencies, giving them greater flexibility about how inputs are used and which activities they carry out, contingent on their achieving measured results, could allow managers to reduce unnecessary costs while improving performance. Presidents should be given the chance to run more agencies in ways that can give citizens a greater "bang for their buck," and the Congress should hold administrations accountable on this measure.

5. Expect Presidents to invest more effort in educating the public about the country's long-term fiscal outlook and the policy responses that would put the government on a fiscally sustainable path. One step in this direction is to require by legislation that the President address the nation each fall on fiscal sustainability. This high visibility forum could direct the public's attention to this issue and provide a summary of how the President's budget was received by the Congress. When combined with the other reforms we propose, it could help the public to hold Presidents and the Congress accountable for acting in a fiscally responsible way.

MEMO 4: STRENGTHENING THE CONGRESSIONAL BUDGET PROCESS

From: ***Roy Meyers, Paul Posner, Steven Redburn and Phillip Joyce***

Congress has been a strong player in the budget process since the founding of the republic. Historically (that is, prior to 1974) that role was mainly manifested, at least on an annual basis, in the consideration and passage of appropriations legislation. Since 1974, with the passage of the Congressional Budget and Impoundment Control Act, the Congress has been empowered to play a more substantial role in establishing overall fiscal policy. At this point, both the annual appropriations process and the larger budget process have become increasingly dysfunctional. Much of this dysfunction relates to the increasingly partisan nature of the budget process, but there are various reforms that can be considered that may encourage a more effective Congressional budget process.

To that end, this memorandum lays out the nature of the problem, and proposes some specific solutions, many of which would require legislative action that might be considered as a part of a first year agenda for the next Congress and administration.

We see three main problems with the Congressional budget process as it now operates.

- First, appropriations legislation, necessary to fund 40 percent of the government on an annual basis, is chronically late.
- Second, and related, the budget resolution, designed to promote the setting of overall fiscal policy, has become an "optional" device, seemingly only enacted when broad consensus already exists on a path for the budget.
- Third, the budget process, far from encouraging fiscal discipline, detracts from a responsible approach to budgeting.

Below we give a brief description of each of these problems and the difficulties they create:

Late Appropriations — The appropriations process consists of (at this writing) the enactment of 12 appropriations bills that together fund the discretionary portion of the government. Only THREE TIMES in the past 37 years has the federal government enacted all of these bills prior to the beginning of the fiscal year. Instead, in most years a series of "continuing resolutions" (short-term appropriations) fund the government, until all the bills can be enacted. In some years, there have even been full year continuing resolutions. This is such a routine occurrence that the Capitol has become somewhat numb to its effects. Far from just a story of political disagreement, chronically delayed appropriations have real negative effects, reducing government's effectiveness. The effects include increased contracting costs, uncertainty for recipients of federal funds, cutbacks in training and development for staff, and delays in hiring personnel.

"Optional" Budget Resolutions — The device that was created to give the Congress an equal voice in setting overall fiscal policy is increasingly just a hit and miss proposition. From the advent of the budget resolution in fiscal year 1977 through fiscal 1998 (that is, the first 22 years), there was *always* a budget resolution, although these resolutions were frequently late. Since fiscal year 1999 through fiscal 2013, however (a span of 15 years), Congress failed to adopt a budget resolution at all on *seven* separate occasions. This represents not only a failure of Congress to follow its legislative mandate; it also suggests that the budget committees may lack enough power to make adoption of the budget resolution the imperative it was intended to be.

Erosion of Fiscal Discipline — Aside from (but related to) these two problems, is a third. There was a time when the appropriations committees were viewed as "guardians" of the public purse and the budget resolution was viewed as a means of promoting fiscal discipline. As of 2012, neither of these is true. The appropriations process has largely become an elaborate, time-consuming mechanism for distributing particularistic benefits (pork). Moreover, while the budget resolution was used to impose or promote fiscal discipline in a few notable cases, especially during the 1990s, it has since 2001 been used to make deficits larger. The Bush tax cuts of 2001 and 2003, for example were enacted using the budget resolution's reconciliation procedures. Even when the budget resolution imposed fiscal discipline on other committees using the reconciliation process, this has not resulted from a collaborative process between the Budget Committees and these other committees, but a more adversarial one. Deficit-reducing actions in one year have sometimes been followed by attempts to undo this deficit reduction in subsequent years. Perhaps the best example of this is the so-called "doc fix", which annually reverses reductions in Medicare payments to physicians that were initially enacted through reconciliation.

Towards a More Functional, Disciplined Congressional Budget Process

Solving these problems will not be easy. Many of them, at their base, are related to the larger dysfunctional, partisan nature of the budget process. Certain changes in the budget process, however, can assist the process to become timelier and fiscally responsible. Many of these involve creating the incentives necessary to spur the Congress to effective action.

A key to giving the Congressional process greater focus and discipline is strengthening the budget committees, giving them both the power and the status that would enable them to accomplish the tasks they were given in the 1974 Congressional Budget Act. In fact, the Budget Act intentionally made them weak, relative to other committees, both by their membership and by the power granted to them. Particularly given the magnitude of the fiscal problem facing the country, it is imperative that the Budget Committees—as the only committees in the Congress with an overall perspective on the budget—be made an effective instrument that House and Senate leaders can use to discipline other committees.

The appropriations process must be made to work better. It is simply not acceptable for the Congress to fail to discharge its most basic of responsibilities on an almost annual basis. Moreover, the appropriations process should be focused on the big decisions about the effectiveness of federal programs, not act mainly as a means of distributing a very small percentage of federal funds to the districts of influential members of Congress.

Creating a more effective budget process involves reform of the committee structure and responsibilities. First, the Budget Committees should be given more clout by reforming their membership. In addition, it would bring more substantive expertise to spending decisions and consolidate decision-making to combine authorizing and appropriating responsibilities. This also would reduce the number of separate committee assignments, giving individual members more time to develop specialized policy expertise. Advocates of jurisdictional consolidation have pointed to the repetitive nature of budget decisions, particularly for discretionary programs. Every year, for example, there is *both* a defense authorization bill *and* a defense appropriations bill. Combining committees might promote fiscal discipline if this reduced the number of members of Congress who routinely are in competition with each other for the distribution of funds (which occurs, for example, when both authorization and appropriations committees attempt to dole out money for highway projects).

The budget resolution should include targets for the deficit and debt going forward. Combined with the strengthened and expanded powers of the budget committees, this will help ensure that the nation's leaders can establish meaningful targets for broad fiscal policy prospectively, as a guide for subsequent appropriations, mandatory program authorizations, and revenue decisions. In contrast, the current debt ceiling sets a limit on paying for the bills already incurred by previous decisions in each of these arenas. This is akin to having a separate vote on whether or not to pay the nation's credit card bill after the spending has occurred. The debt ceiling is anachronistic. It may have made sense in 1918 to help Congress retreat from its prior role in pre-approving each Treasury debt issuance. But, in a modern global economy, the debt ceiling serves no purpose and merely invites fiscal hostage taking. We have seen how such fiscal brinkmanship has affected the nation's bond rating; according to the GAO, it may contribute in the future to increasing the interest rates that Treasury must pay to more skeptical markets, according to a GAO study. The requirement for a separate vote to raise the debt ceiling should be eliminated.

The recommendations that follow are designed, in total, to improve the prospects for the Congress to engage in forward thinking, fiscally disciplined budgeting both by enhancing the status of the budget committees and by creating incentives designed to encourage action, as opposed to inaction.

Recommended Actions

1. **Make the Budget Committees leadership committees.** The Peterson-Pew Commission on Budget Reform explicitly advocated a legislative change providing that the budget committees include "House and Senate leaders and the chairs and ranking members of both the appropriations and revenue committees and other major authorizing committees." This recommendation is aimed at making it more likely that the budget committees would be invested in fiscal goals that had been agreed to prior to the year's budget process and would be committed to carrying out those goals in the subsequent legislation. Such a change might aid in the passage, content, and adherence to the budget resolution. In another memo we describe how the budget resolution can be reformulated to provide a multi-year framework based on established fiscal goals, such as stabilizing the debt.

2. **If the budget resolution is not reported out by the Budget Committee in either house by May 15th in any year, permit any member to propose a budget resolution on the floor of the House or the Senate.** Both the House and the Senate could then take up a budget resolution without the Budget Committees having any role in the process. This would create incentives for the Budget Committees to act, since otherwise they would cede power to other actors in the Congress.

3. **Require the reconciliation process to be used annually until the public debt is stabilized at 60 percent of GDP.** Currently, the reconciliation process is optional. This means that the Congress does not have to confront mandatory spending and revenue decisions unless they desire to do so. Instead of permitting them to duck responsibility, reconciliation should be a required

part of the budget process. If a reconciliation bill is not considered by the House and Senate in a given year, a sequestration process involving automatic spending cuts and tax increases should take effect.

4. **No longer require a separate vote to increase debt limit.** Rather than require separate legislation to raise the debt limit, separate from other fiscal decision-making, debt ceiling adjustments should either be automatic or be made as part of the annual budget process, ensuring that the government will meet its financial obligations. One option is to include a debt ceiling adjustment consistent with budget estimates in an annual joint budget resolution (see Memo 3: Strengtheing the President's Role in the Federal Budget Process).

5. **Combine the authorizing and appropriations committees.** Currently the federal budget process has three stages: Consideration of the budget resolution (including reconciliation), authorization of federal programs and, for programs requiring annual spending authority, the appropriations process. Proposals to combine the latter two stages usually would restructure committee jurisdictions along functional lines (defense or health or education), with committees having jurisdiction over both mandatory and discretionary programs, and over authorization and appropriations. These committees could take general responsibility for performance in a mission or functional area, including review of related tax expenditures and effective program implementation.

6. **Prohibit continuing resolutions.** Specifically, this would require any appropriation bill to provide at least a full year of appropriated funding in order to be able to be considered on the floor of the House or Senate. One practical way (but not the only way) to enforce this would be to prohibit any bill that does not provide a full 12 months of funding to be passed unless 75 percent of each house voted for the bill. This is a radical idea. It would possibly make it more likely that government shutdowns of the type not seen since 1995 and 1996 would occur. On the other hand, that fact might make it less likely that we would continue the process of enacting serial continuing resolutions that create numerous problems for federal agencies and recipients of government funds. The argument here is that the routine practice of serial CRs creates more problems than brief periodic government shutdowns.

ADMINISTRATIVE LEADERSHIP: Fixing The Appointments Process

By James Pfiffner, Dwight Ink, David Lewis and Anne O'Connell

A President is elected every four years, but he or she does not run the government alone. Thousands of political appointees must be appointed to lead the departments and agencies of the executive branch. These appointments depend on an elaborate process of recruitment, confirmation, mastering their offices, and working with career executives to implement the President's priorities and execute the law. But the political appointee system that developed over the course of the 20th century is broken in several important ways.

According to Aspen Institute calculations, from 1984 to 1999 only 15 percent of the top appointees of the new President were in place within two months of inauguration. In the Clinton, Bush, and Obama administrations, about 50 percent of the top 75 national security appointments remained vacant on May 1 and 85 percent of the top sub-cabinet positions in legislative, legal, management, and budget officials remained empty. After one full year in office, President Obama had filled only 64.4 percent of the key Senate confirmed positions in the executive branch according to the *Washington Post* Headcount website. This is compared to 86.4 percent for Reagan, 80.1 percent for George H.W. Bush, 69.8 percent for Clinton, and 73.8 percent for George W. Bush.

Causes for these delay in nominations, include inadequate pre-election planning, inadequate human resources devoted to personnel, slow recruitment and vetting, multiple information forms to be filled out by candidates, and the flood of applications for jobs after each election. Once filled, these positions often became empty before the end of a President's term, leading to agency inaction, confusion of civil servants, and lack of accountability. In addition, the expanding role of political appointees, combined with their increasing numbers, has exacerbated the consequences of delayed confirmation and led to the underutilization of the career services, with serious program delivery consequences.

The memos below make a number of recommendations to alleviate the above problems. If the President and Congress put these recommendations in place, we will see significant improvements in the management of the government and the delivery of services to the American people.

NAPA and ASPA are aware of other initiatives to improve executive leadership in the federal government, such as those of the Aspen Institute and the Partnership for Public Service, and we join them in calling for reforms in the Presidential appointments process and career leadership in the executive branch.

MEMO 1: RECRUITING POLITICAL APPOINTEES

From: *James Pfiffner*

The United States needs to have a fully functioning government in place shortly after each new administration takes office. New Presidents often face unexpected crises without most of the leadership in the national security agencies, particularly the Departments of Defense and Homeland Security. Aside from national security, new Presidents need a fully functioning executive branch to pursue their policy objectives. The problem is that in recent administrations, Presidents and the Senate have not moved quickly enough to fill key positions.

Causes for the delay in nominations, include inadequate pre-election planning, inadequate human resources devoted to personnel, slow recruitment and vetting, multiple information forms to be filled out by candidates, and the flood of applications for jobs after each election. Admittedly, some delays in confirmation are due to political problems and Senate confirmation, but many are due to the inability of the transition personnel operation and the Office of Presidential Personnel to vet and prepare candidates for nomination. Presidential recruitment efforts need to be initiated earlier, the OPP needs more resources, and the administration need to get candidate backgrounds to the appropriate Senate committees earlier.

Scope of the Challenge

Each Presidential administration is faced with appointing about 3,000 people to help run the executive branch. In addition, there are about another 3,000 part time Presidential appointments as well as about 700 White House staff appointments. Of the 3,000 executives and commissioners, about 800 require Senate confirmation (not counting 200 to 300 US attorneys, marshals, and ambassadors). In addition, there are about 800 non-career Senior Executive Service appointments and 1,500 Schedule C (GS 15 and below) appointments. SES and Schedule C appointments are technically made by department secretaries and agency heads, but in recent administrations, the OPP vets and designates these lower level appointments. Thus, each new incoming President must plan and gear up a process to recruit, vet, and nominate hundreds of people to lead the executive branch.

With the increasing number of appointees the Office of Presidential Personnel has difficulty matching individual policy background, managerial experience, and political skills necessary to lead organizations with thousands of employees and responsible for spending billions of dollars.

While seeking out potential appointees for these political positions is daunting, the responsibilities of the Office of Presidential Personnel are quite a bit broader. After each election the new administration is swamped with flood of eager office seekers. People who have worked on Presidential campaigns hope for and expect appointments in the government.

During the transition from President Reagan to President Bush 16,000 resumes were waiting to be vetted, and by the end of May more than 70,000 applications and recommendations had been received. During the Clinton transition the personnel operation had received 3,000 resumes by the end of their first week, and by February 1993 they were receiving 2,000 per day. According to Robert Nash, OPP director for President Clinton, the OPP computers contained 190,000 resumes in the last year of the administration. With the new technology of internet communications, it was reported that the Obama transition personnel operation received up to 300,000 applications, most of them online. Even though most of these applicants were not qualified for the positions available, it takes time for the personnel operation to separate the wheat from the chaff; the numbers are daunting.

Given the increasing numbers of political positions and the increasing scope of coverage of the OPP, it is not surprising that the pace of appointments has slowed considerably in the past four decades.

Transition Personnel Teams and the Office of Presidential Personnel

In order to handle political appointments, Presidents have gradually increased the size of the Office of Presidential Personnel. President Nixon created the first systematic recruitment effort with about 35 people devoted to the task. As Presidential transitions became more organized Presidential nominees began to set aside resources for personnel planning several months before elections and even before formal nominations had been won. The incoming Reagan administration had about 100 people working on personnel by the time the election had been won. Despite this increase in resources, the time it takes to nominate and confirm the top tiers of the executive branch continues to increase. As a result, Presidents have gone well into their first terms before they have most of their leadership team in place in departments and agencies.

For instance, from 1964 to 1984, Presidents had about 48 percent of their top appointees in place within two months. But from 1984 to 1999 only 15 percent were in place. [source: Light and Thomas, Brookings, 2000] In the Clinton, Bush, and Obama administrations, about 50 percent of the top 75 national security appointments remained vacant on May 1 and 85 percent of the top sub-cabinet positions in legislative, legal, management, and budget officials remained empty [source: Aspen Institute]. After one year, President Obama had filled only 64.4 percent of the key Senate confirmed positions in the executive branch according to the *Washington Post* Headcount website. This is compared to 86.4 percent for Reagan, 80.1 percent for George H.W. Bush, 69.8 percent for Bill Clinton, and 73.8 percent for George W. Bush [source: Anne Joseph O'Connell, "Waiting for Leadership, 2010].

Of course, the routine functions of government continue to be carried out by the civil and military officials responsible for implementing policies that are in place. But they cannot represent a new administration, provide policy leadership, or make decisions about significant changes in policy. In addition, the increasing layers of political appointees means that there are fewer career executive who have the requisite experience to serve effectively at the highest levels of departments and agencies.

Given the lack of agency leadership in the early months of each new administration, it is imperative that the appointments process be reformed so that the President's team can take control of the government and implement the new administration's policy priorities.

Thus we make the following recommendations:

For newly elected Presidents:

- Early planning is essential for an effective appointments process. Personnel planning should begin several months before the election so that it is ready to go immediately after the election.

- The President elect should designate the head of transition personnel planning to be the first director of the Office of Presidential Personnel. Top members of the personnel recruitment team should commit to stay in their jobs at least a year rather than taking other positions with the new administration.

- New Presidents should set priorities for nominations to top national security posts in DOD, DHS, State, Treasury and other positions in the areas of Presidential policy priorities.

For incumbent Presidents:

- The OPP should deliver background material to Senate staff of the appropriate committee as soon as the President nominates the person.

- Pursuant to the Working Group Report created by S. 679, a common on-line form for background information should be developed so that a nominee has to enter the information only once and the required information can be made separately available to the OPP, FBI, the Office of Government ethics, and the appropriate Senate committee.

- The Office of Presidential Personnel should be increased in size so that the resources are available to move quickly at the beginning of a new administration. Likewise, the FBI, OGE, and Senate should increase their staffs so that the vetting process and keep up with nominations.

- A separate confirmation unit should be established in the White House with members of the OPP, the counsel's office, and the Office of Congressional Liaison to assist nominees and shepherd them through the confirmation process.

- A reduction of the total number of political appointees would alleviate most of the problems noted in this report.

[Some of these recommendations echo recommendations of the Aspen Institute and the Partnership for Public Service.]

MEMO 2: INTERACTION OF POLITICAL AND CAREER LEADERS

From: ***Dwight Ink***

We hear a constant drumbeat about government being broken. It seems to be increasingly sluggish and expensive when measured against the growing complexity of the challenges it faces in a globalized, highly competitive world. We are exasperated with the political rancor in Washington that holds political points above national interests. Addressing this political gridlock is beyond the scope of this paper, but there is another little noted development that also has significantly reduced the capacity of government to meet its responsibilities.

The expanding role of political appointees, combined with their increasing numbers, has led to an underutilization of the career service, and too many cases of unsatisfactory political/career relationships, with serious program delivery consequences. It has created major political problems for Presidents. Several examples:

- Much negative publicity has been focused on the mismanagement of the Katrina recovery. Yet the media says nothing about the fact that there were career people who could have told them how to design and implement the recovery in ways that would have dramatically expedited the recovery and slashed its cost.

- We have been dismayed by the first abysmal efforts to help Iraq recover after our successful military operation. Yet there were career leaders available who could have explained how wrong these initial plans were and, drawing upon past experience, suggested far better approaches that were tailored to the culture and political realities of Iraq.

- Greater reliance on experienced career leadership would have prevented the mismanagement problems of the Minerals Management Agency that led to the mishandling of the BP drilling permit, resulting in the Gulf Oil Spill.

Over the years, many of the largest Presidential initiatives for reform of government operations or for addressing urgent crises have shown the value of reliance on career leaders for their design and implementation. Bureau of the Budget career management staff helped Roosevelt organize, and later dismantle, his wartime agencies. It also designed the management of Truman's Marshall Plan and the new LBJ departments. Career people designed and operated most of the massive interagency and intergovernmental reforms of Nixon. Carter's Civil Service Reform was designed by career task forces.

Today, career leaders rarely have the opportunity to make such contributions. Instead, these government operational leadership roles are given increasingly to the growing number of political appointees who are moving beyond policy into operational assignments formerly handled by career leaders.

Given the opportunity, their experience enables career leaders to assess organization and personnel capabilities better than political appointees, understand the level of acceptable risks more clearly, innovate quickly, and act more rapidly. When career personnel are prohibited from recommending the award of grants and contracts, merit can be replaced with favoritism and corruption, increasing costs and often undermining public confidence in their government. Basic values of public service, such as equity, transparency, and accountability lose ground and government performance declines. The public deserves a highly trained professional career service to administer the laws impartially.

Underutilization of the career leadership is caused in part by a failure to grasp the enormous positive or negative impact political appointees can have on the capacity of their organizations to achieve their goals. Appointees who regard federal employees as overpaid bureaucrats who lack creativity and initiative, are not apt to enlist career leaders to help carry out new Presidential initiatives. More likely, they will strive to "control the bureaucrats" rather than empower them to act. Productivity, innovation, and initiative suffer. Other appointees simply feel they are too busy to think about steps that might enable their agency's workforce to perform at a higher level in advancing Presidential initiatives.

The most successful large government operations are usually those with strong political leaders who know how to motivate and utilize the career service in ways that employ partnership characteristics. James Webb's skill in getting the best from the NASA professional staff in going to the moon is a good example. So is the performance of James Witt in turning around the problem plagued FEMA through his skill in leading the career service to far greater levels of performance.

The interaction between political appointees and the career service is often discussed in the literature, but surprisingly little concrete action has been targeted toward its improvement. In fact, it is almost absent in the selection and confirmation of top leadership appointees, an incomprehensible failure in view of its importance. It is given only cursory attention in the orientation sessions for incoming cabinet members.

As the number of political appointees has grown, the roles of the lower level appointees and career leaders have become blurred and accountability has been weakened. In addition, the clarity of a Presidential message becomes diffused as it filters down to career leaders through increasing layers of political appointees, some of whom feel stronger loyalty to their political sponsor than to the President. Finally, the layering of political appointees also weakens the priority attention agencies give to public service values such as equity, transparency, and accountability. Most advanced countries limit the role of political appointees to policy rather than operational roles.

Recommendations:

1. **Presidential Commission.** A bipartisan commission should be appointed to review political appointee practices that contribute heavily to improved agency operations such as those that energize the career service, and those practices that impact operations negatively. It should review their political role only as it impacts agency operations, such as whether the increased number of appointees is resulting in career leaders being replaced by political appointees with less experience and knowledge of government operations as this author asserts. Steps to enhance working relationships between top political appointees and SES leaders should be included.

2. **Limit Political Appointments.** A limit on the number of political appointees should be established by Congress, especially for Schedule C appointments. The congressional limit on political appointments in the Senior Executive Service has little meaning if political appointees can be added through Schedule C appointments.

3. **Development Program.** To ensure development of career personnel capable of handling key operational roles, OPM should expedite a program to provide development opportunities for qualified career personnel from entry through the SES. Each deputy to a program assistant secretary or bureau chief should be drawn from the SES.

4. **Mobility.** The Partnership for Public Service has found that only 8 percent of SES executives have worked at more than one agency, and almost half have stayed in one position in their agencies. OMB and OPM should work together to facilitate greater mobility of senior executives among agencies. To ensure continuity, legislation is also recommended to mandate mobility opportunities for high performing personnel wishing to advance to top SES assignments, taking care to provide flexibility to adapt to agency needs and changing conditions.

MEMO 3: REDUCING THE NUMBER OF POLITICAL APPOINTEES

From: *David Lewis*

The next President should reduce the number of appointees in the federal executive establishment. The number of appointed positions that currently exists is not the result of careful Presidential choice but the inheritance of past political choices and overwhelmed Presidential personnel operations. Judicious reductions in the number of appointees will improve government performance by increasing managerial capacity, decreasing harmful management turnover, and facilitating efforts to recruit and retain the best and brightest in government service.

Background

Upon assuming office the President must fill 3,000 to 4,000 positions in the federal executive establishment. Presidents fill these positions under time constraints and tremendous scrutiny from supporters, Congress and the press.

Increases in appointees. Since the middle of the 20th century, the number of appointed positions has almost doubled, both in total numbers and as a percentage of federal civilian employees. Presidents, with the cooperation of Congress, have increased the number of appointees. Some of the increase is the natural result of an increase in the number of federal programs and agencies. When Congress creates new programs or agencies, they create new Senate-confirmed positions to manage these endeavors. A significant source of the increase in appointees, however, is the desire of Presidents to secure more control of the policymaking process within federal agencies. Appointees are added to rein in agency activities or enforce new agency priorities.

Why new appointed positions persist. Once new positions are created, they often persist. Each new administration uses the previous administration's map of appointees as a starting point for their own staffing. New Presidents are reluctant to give up appointed positions because they hold out the promise of helping them secure control of agency policy making and also provide a means of satisfying the immense demand for jobs in the new administration. New administrations also do not have the time or capacity to review existing positions to determine where appointees are helpful and improve both responsiveness and management and where their elimination would cost nothing more than the loss of patronage possibilities. The result is an irregular but noticeable increase in the total number of appointees and a consequent reduction in the overall quality of executive branch management.

Appointees and Performance

Most existing research on appointees and management performance suggests that agencies function best when there is an appropriate mix of career professionals from inside the agency and political appointees drawn from outside the agency. Each type of manager brings unique perspectives and skills to the management team that, in the proper amounts, can lead to high agency performance. Scholars in the United States worry that increases in the number of appointees in the last 50 years have disrupted the mix of appointees and careerists in ways that have been harmful for performance. The increasing depth and penetration of appointees has both visible and hidden effects on agency performance.

Appointee vs. career executive management. Appointees play a vital role since they provide electoral accountability. The possibility of Presidential removal makes appointees more responsive than their careerist counterparts. Appointees' close connections to administration officials and partisans in Congress provide them a unique perspective on agency tasks and relationships that can facilitate the provision of budgets and necessary political support for agency programs. Appointees are more likely to see the world through the eyes of elected stakeholders like the President and can bring energy, responsiveness, and risk taking into agency decision making in a way that can improve performance.

Career executives inside agencies are more likely to have program and policy expertise derived from agency work experience and long tenures managing or helping manage federal programs. Careerists are more likely to have public management experience in the federal government and agency they work in. They have a better understanding of the rhythms of public sector work, informal networks, and the arcane realities of public agency management. Their long familiarity with the agency and its budgets and process helps them manage programs better and interface more effectively with outside stakeholders and inside partners.

If appointees assume the bulk of the key program and agency management positions in the federal executive establishment, agencies are increasingly characterized by lower levels of expertise and public management experience that can lead to poor management performance. This can be seen in dramatic cases such as the Federal Emergency Management Agency's response to Hurricane Katrina and Iraq reconstruction.

Hidden Costs: Turnover and Vacancies. Even if appointees have the background and qualifications to manage federal programs well, their presence down at the program management level can be harmful to government performance. Once key management positions are filled by appointees, they stay that way in future administrations. This means management positions filled by appointees experience systematically higher rates of turnover on average than management positions filled by careerists. While the average CEO in the private sector stays five to seven years, the average tenure of an appointee varies by level but is usually about 2.5 years.

Regular turnover in management positions has corrosive effects on management performance. Two years is about long enough to start new initiatives and begin to see them implemented but not long enough to see them fully carried out. Appointees are and are perceived to be short timers. This can be problematic for agency management since this myopic focus systematically reduces the incentive of agency managers to engage in long term planning.

Hidden Costs: Recruitment and Retention. Increasing numbers of appointees also damage agency efforts to recruit and retain the best talent in the civil service. If increasing numbers of the top agency jobs are filled by appointees, there are fewer jobs available to career professionals. This damages the ability of the agency to retain top career professionals or induce the best and brightest workers to come to the agency in the first place. In the current political environment, where elected officials criticize government workers and threaten to cut pay and benefits, it is already difficult to recruit and retain the best and the brightest workers. If appointees take the highest paying jobs and the jobs with the most prestige and influence, careers in government service become even less attractive for workers who have options in other sectors.

Smart Reductions

The next President should take action to reduce the number of political appointees. Many former presidential personnel officials agree that the President does not need 3,000 to 4,000 positions to manage the executive branch. Of course, efforts to cut appointed positions must be done judiciously. Presidential administrations are naturally concerned that a reduction in appointees could influence their ability to control the executive branch and reward supporters with jobs. Yet, most experienced personnel officials believe that control can be accomplished with fewer appointees and that many politically appointed positions are at lower levels and provide only modest political benefit to the President.

Congress and the President should seriously consider making cuts in the following areas:

1. First, Presidents should aim to reduce the number of Senate-confirmed positions in management positions and part-time, commission, and advisory posts. Management positions are ideally suited for experienced persons concerned with long term planning and the agency's health. Presidents could fill these posts with career members of the Senior Executive Service whose long experience in the federal government would be valuable but over whom the President still retains substantial control. Cuts in part-time, commission, and advisory posts (which often require Senate confirmation) would not directly help performance in the larger agencies but cutting such positions would make the personnel task easier for the PPO and reduce the burden on the Senate to let both parties focus on the nominees for the key policymaking positions.

2. Second, efforts to cut appointees of all types should focus on the program or bureau level. The best empirical evidence suggests that career managers perform more effectively than political appointees at this level of management. David Lewis has compared PART scores (2004-08) of agencies headed by political appointees and career executives. He found that programs administered by career executives systematically performed better than those headed by political appointees. Placing career executives in program management roles will induce career executives to stay and build careers in the federal service without sacrificing political accountability. Presidential appointees at the head of agencies and bureaus will continue to oversee the careerist managers of federal programs.

3. Third, Schedule C positions should be reduced. Schedule C positions are for persons serving in policy and supporting positions but usually in a staff role. Persons appointed in these positions have little formal authority, but can accrue substantial informal authority. Some of the difficulties in the past administration with appointees stemmed from personnel in Schedule C positions. Comparable positions to those filled by appointees in Schedule C positions are filled by careerists in different agencies with little apparent sacrifice in responsiveness.

The President could pursue these changes through legislation or executive action. Eliminating Senate confirmed positions requires legislative action. Short of new legislation, the President may simply nominate career professionals to Senate-confirmed positions, reduce the number of non-career appointees to the Senior Executive Service, or refuse to create Schedule C positions (which must be created new each time an appointee departs).

We applaud the recently enacted Presidential Appointment and Efficiency and Streamlining Act of 2011 (S. 679) which reduces the number of positions requiring confirmation by 166. But more can and should be done. If the President and Congress continue on this path and put the above recommendations in place, we will see significant improvements in the management of the government and the delivery of services to the American people.

MEMO 4: DECREASING AGENCY VACANCIES

From: *Anne O'Connell*

The modern federal bureaucracy shapes important public policy. To run effectively, that bureaucracy needs skilled and accountable leaders. In recent administrations, vacancies in key positions have contributed to agency inaction, confusion of civil servants and lack of accountability. It generally has taken many months to get the first wave of Senate-confirmed appointees into place. Then, once filled, these positions often empty out before the end of a President's term as appointees seek jobs in the private sector or move into other slots in the administration. And near the end of a two-term administration, the positions are open in large numbers again.

The cycle of agency vacancies depends on a combination of how long it takes to fill positions and how long officials stay once those positions are filled. On the former, the vacancy period runs from the departure of a preceding official to the starting date of a new formal appointee. Putting recess appointees and acting officials to the side, the vacancy period between traditional appointees has two major phases: the period between the departure of the former appointee and the President's nomination of the new appointee—the "nomination lag" (addressed in a previous memo); and the period between the President's nomination and the Senate's confirmation of the appointee—the "confirmation lag." In addition to reducing the time to fill senate confirmed positions, appointees need to serve for longer periods.

The Confirmation Lag

Presidents of both parties complain about the length of the confirmation process for their agency (and judicial) nominees. Although the nomination lag is longer than the confirmation lag, the latter is still substantial. It also appears to be increasing. In addition, expected hurdles in the confirmation process may slow Presidents in making nominations. Several issues likely contribute to the confirmation lag: holds by individual Senators, lack of deadlines, and increased challenges to the White House's picks. Other factors, such as inconsistent and duplicative disclosure mandates to appointees, matter as well.

A hold, often secret, prevents the Senate from voting on a nominee unless 60 votes can be obtained for a cloture vote or until the hold is lifted. It therefore provides tremendous power to an individual senator and can prevent a nominee from being confirmed. Historically, the Senate has been deferential to the President's choices for agency leaders. Recently, however, holds have become commonplace, even if there is no question about the competence of the particular nominee.

In early 2010, for instance, Senator Richard Shelby (R-AL) put a hold on dozens of nominations in the Defense and State Departments. According to his spokesman early on, Senator Shelby placed the hold on "several" nominees over the reopening of a particular contract that was going to be carried out in his state and over funding he wanted to construct a counterterrorism center also in his state. In the end, Senator Shelby admitted to placing holds on 47 nominees. Senator Shelby eventually lifted these holds, which were not connected to specific nominees. If senators have complaints about the administration's policy judgments, they can take up those complaints most directly with the White House or less directly through committee hearings and the appropriations process, all of which are legitimate ways of expressing policy disagreements. Although they should be discouraged, holds involving concerns over an appointee's qualifications or statements to the Senate may be appropriate in certain circumstances.

Even if there are no holds on particular nominees, the process can stall for a significant period. There are currently no deadlines on how long the relevant committee (or committees) can consider a nomination or on how long the Senate can consider a nomination after committee action. Many nominees, after languishing in the Senate, have been approved by votes far exceeding the sixty needed for cloture.

Both parties in the Senate are to blame, both when they are in the majority and in the minority. The majority party often has not made confirmation of agency leaders a sustained priority. The minority party has placed procedural obstacles in the confirmation process, knowing that they would only delay but not stop certain nominations from going through. The Senate could, for instance, require the relevant committees to vote on a nomination within a set period, such as two months from when the Senate receives the nomination. Ideally, but likely much less politically feasible, the Senate should also impose a deadline on itself, for a vote on a nomination, such as three months from receipt of the nomination. The Senate operates under deadlines in other contexts—fast-track repeal of major regulations under the Congressional Review Act, for instance. It could establish deadlines in this context as well.

With delays in confirmation, Presidents can resort to recess appointments. This route, however, is far from ideal, since the term of the appointee is limited, and separation of power issues may arise between the Senate and the President.

Appointee Tenure

Commentators also lament the short tenures of top agency officials. As one staff member from President Eisenhower's administration quipped, agency leaders seem to stay for "a social season and a half and then leave." In reality, tenure is longer, but not by much. In recent administrations, politically appointed officials stay an average of 2.5 years. Several issues encourage short service but two are noteworthy, the lack of express commitment to serving longer and inadequate training for the position.

Appointee commitments to serve out a Presidential term are not legally binding, but they discourage potential appointees from using government service as a quick stepping stone to more financially lucrative jobs in the private sector. Of course, the President could still ask any official serving at his pleasure to step down at any time.

Meaningful orientation and training can improve performance or at least help appointees manage expectations. New members of Congress have an intensive orientation at the Capitol; they can also attend a supplemental week-long training at Harvard University. Agency leaders generally have not had comparable opportunities, despite their similarly critical responsibilities. A 2008 survey of agency appointees by the IBM Center for the Business of Government and the National Academy of Public Administration found that 45 percent of respondents had no orientation and that 33 percent felt their orientation was only somewhat effective, not very effective, or poor. Most respondents wanted more training. Such programs have been used in the past, and the most effective practices should be systematically developed.

To improve the appointment process we make the following recommendations:

1. The Senate should limit or constrain the time of holds on agency nominations, especially if the hold is unrelated to the nominee.

2. The Senate should consider a fast track system for nominations to executive branch positions. This could be done by imposing deadlines on two stages of the confirmation process: how long the relevant committee or committees can consider but not vote on a nomination and how long the Senate can consider but not vote on a nomination.

3. The Senate should defer in most circumstances to the White House on agency nominations, unless there is a genuine concern about the individual nominated.

4. The President should require agency officials to commit to serve for a full Presidential term.

5. Systematic, institutionalized orientation and training sessions for new appointees should be instituted.

The recently enacted Presidential Appointment and Efficiency and Streamlining Act of 2011 (S. 679), in addition to reducing the number of Senate-confirmed positions by 166, also sets up a working group to formulate a plan to reduce paperwork, streamline background investigations, and speed the processing of background information on nominees. We applaud this step forward and hope their recommendations will be implemented.

STRENGTHENING THE FEDERAL WORKFORCE

By Stephen E. Condrey, Rex L. Facer II and Jared J. Llorens

As many in the field of public administration have observed over the past decade, the federal workforce faces a number of critical challenges that must be addressed in order to fulfill the increasingly complex demands placed upon federal agencies. For example, there is a looming retirement bubble, which will require the replacement of a significant portion of the federal workforce. In addition, the technical skills required in today's workplace continue to necessitate advanced employee training efforts. Accordingly, during the next four years, improving the federal human resource systems will be critical. In order to provide the level of service expected from the Federal Government, we must address significant HR issues. These issues include: compensation reform, strengthening and streamlining federal recruitment and selection, enhancing training and development, and strengthening employee/labor relations.

In an effort to provide assistance to the President and Congress, we have prepared a set of policy memos that each summarize a key challenge for federal human resources managers, and provide practical recommendations on how the President and Congress can better position the federal workforce to meet the dynamic and growing demands placed upon it. These recommendations include the following:

- Federal pay comparability policy should more efficiently resolve disparities between the Federal Government and the private sector through tailored pay adjustments within the General Schedule pay system, and expanded within-grade pay ranges.
- To replace 60 percent of the federal workforce expected to retire during the next Administration, the federal recruitment process should continue reform efforts to strengthen transparency and accessibility by talented job applicants.
- Federal training and development efforts should be reinvigorated in order to serve as a natural complement to compensation policies aimed at rewarding individual effort and achievement.
- Federal labor/management partnerships should be reinforced to ensure fair treatment for employees whose pay and benefits are under increasing pressure from outside economic forces.
- The role of the U.S. Office of Personnel Management (OPM) should be enhanced to better position the agency to lead federal human resource management efforts in the future.

MEMO 1: MOVING TOWARDS A MORE STRATEGIC FEDERAL PAY COMPARABILITY POLICY

From: ***Stephen Condrey, Rex Facer and Jared Llorens***

Spurred by the current freeze on federal pay, the issue of federal pay comparability has taken on renewed importance in recent years. Mirroring discussions taking place at the state and local levels of government, both policymakers and independent researchers have devoted a great deal of attention to questions concerning the extent to which federal employee pay rates are comparable to rates available in the private sector, as well as appropriate strategies for ensuring that federal human resources management systems are capable of recruiting and retaining the best and brightest candidates.

Perhaps the most contested issue in recent federal pay discussions concerns the proper methodological approach for both comparing federal and private sector pay rates and providing annual pay increases to employees. As authorized by the Federal Employees Pay Comparability Act of 1990 (FEPCA), the U.S. Federal Salary Council must make annual pay rate recommendations to the President's Pay Agent based upon salary survey data provided by the Bureau of Labor Statistics (BLS). With comparability estimates constructed from a survey of occupational salaries in the private sector, BLS data has consistently highlighted that, on average, federal employees working in the General Schedule (GS) system tend to be substantially underpaid when compared to their private sector counterparts; but when disaggregated by grade level, lower graded employees tend to be overpaid while higher graded employees are generally underpaid.

Table 1

Federal GS Wage Gap — March 2010

Grade	BLS-Estimated Comparable Annual Pay	GS Average Annual Pay w/Locality Adjustment	BLS-Estimated % Pay Gap w/Locality Adjustment
1	$ 20,092	$ 23,608	-14.89%
2	$ 20,916	$ 25,011	-16.37%
3	$ 24,819	$ 28,199	-11.99%
4	$ 29,129	$ 31,849	-8.54%
5	$ 33,096	$ 35,585	-6.99%
6	$ 39,239	$ 40,135	-2.23%
7	$ 44,227	$ 44,594	0.82%
8	$ 51,733	$ 51,616	0.23%
9	$ 58,621	$ 53,683	9.20%
10	$ 71,859	$ 60,481	18.81%
11	$ 76,990	$ 65,205	18.07%

12	$102,496	$ 78,939	29.84%
13	$110,770	$ 94,632	17.05%
14	$147,581	$112,266	31.46%
15	$167,877	$134,320	24.98%
Weighted Average	$ 70,330	$ 61,313	14.71%

As 2010 BLS estimates highlight above, there is a distinct break in federal pay comparability for those employees in grade levels higher than GS-7, with higher graded employees experiencing pay gaps of up to 31 percent in some cases.[1]

While there is considerable disagreement as to whether occupation-based pay comparisons provided by the BLS accurately capture comparability levels between the Federal Government and private sector, perhaps the most significant shortcoming of the Federal Government's existing approach is that it fails to account for differences in pay comparability between grade levels within the GS system. As mandated by FEPCA, the Federal Salary Council can make only one annual pay adjustment recommendation for the entire GS system. In practice, this means that annual pay increases are applied uniformly across all pay grades, thus overlooking variation in pay comparability between grade levels. While the Federal Salary Council has historically recommended pay increases at levels aimed to bring average pay rates within 5 percent of private sector pay rates (as mandated by FEPCA), actual pay increases have been much smaller (between 1 percent and 3percent), and have had the ultimate effect of increasing pay premiums for lower graded employees without substantially affecting underpayment for higher graded employees.

Recommended Actions

From a strategic human resources management perspective, the current federal pay setting policy leaves much to be desired and the President and Congress should take proactive steps to reform the current system in a manner that will allow federal agencies and managers to better compete in the broader labor market. While we acknowledge concerns with the current process for estimating pay comparability, there are two relatively simple policy reforms that would provide immediate improvements upon the current system.

- **The President and Congress should take steps to end the practice of across-the-board GS pay scale increases to address public/private pay disparities and allow for grade-level adjustments based upon disaggregated comparability estimates.** This policy shift would grant the Federal Salary Council and President's Pay Agent the ability to strategically target pay increases for those GS grade levels found to be the furthest below the private sector labor market in an effort to boost the recruitment, retention, and performance of federal employees. However, it would also allow for general cost-of-living adjustments for all grade levels.

- **The President and Congress should take steps to expand the pay ranges within the existing GS pay system to allow for greater pay progression within GS grade levels.**

1 Data provided at the October 29, 2010 Federal Salary Council meeting in Washington, DC. Estimates reflect the difference between comparable federal and private sector salaries using data from the National Comensation Survey. Final averages weighted by PATCO and employment by grade level. In the third column, positive estimates reflect a private sector advantage and negative estimates reflect an advantage to the Federal Government.

Current pay ranges are insufficient to accommodate acceptable pay progression and ultimately contribute to salary compression at the higher grade levels. When combined with the first recommendation, this system reform would provide employees with greater opportunities to progress within existing grade levels without the need to consistently seek out higher graded positions.

CLARIFYING FEDERAL COMPENSATION STRATEGY

Strengthening the Federal Workforce addressed several critical issues in the area of federal human capital management. However, our assessment and recommendations concerning federal pay comparability have received the most attention and, from our standpoint, would benefit from the additional clarification provided in this supplemental memo.

In both the popular press and academic literature, there has been an ongoing debate concerning federal General Schedule (GS) pay rates and the extent to which they are comparable to private sector pay rates. Recent news reports have added fuel to this debate by highlighting a finding, this fall, by the Federal Salary Council that even after taking into account locality pay, the "overall remaining pay disparity is 34.6 percent" for federal employees when compared to employees in similar positions in the private sector.

In our memo on federal compensation, we recommended two strategies to better address the issue of pay comparability and to improve overall compensation practices in the federal government. First, allowing for grade specific pay rate adjustments (as opposed to the current uniform approach) to target pay disparities in those grades where there exists a systematic pattern of disparity. Second, broadening the pay range within grades to provide a greater range of potential pay. Taken together, we believe these reforms would increase the ability of the federal government to pay more competitive wages throughout the system.

In our recommendations we also noted that Bureau of Labor Statistics data show that "when disaggregated by grade level, lower graded employees tend to be overpaid while higher graded employees are generally underpaid." Some interest groups have mistakenly assumed that because of that general pattern we would encourage the reduction or freezing of pay rates for lower graded employees. On the contrary, we still hold that lower graded positions should be eligible for Employment Cost Index (ECI) and within-grade pay increases, but we do believe that pay comparability adjustments should be limited to those grade levels that have experienced consistent underpayment. Overall, our position is that compensation should be strategically oriented and structured to accomplish specific purposes (e.g., job based compensation, keeping up with inflation, rewarding performance, and closing the gap between public and private jobs, etc.). Additionally, we acknowledge that pay for employees in the lowest GS grades is near the poverty threshold. For example, the Census Bureau reports, that for a four-person household, the poverty threshold is $23,021 (FY2011) per year, but for many employees in GS grades 1-2, their annual pay rates fall at or below this threshold. Therefore, we do not recommend reducing the pay of lower-graded employees for any reason, especially for the purpose of funding or partially funding increases for higher-graded employees. Indeed, the "overpayment" at this level is the result of a position classification system that values the internal worth of jobs to the government in combination with their worth in the external market.

In sum, the primary purpose of our original memo on compensation was to promote changes in compensation practices which are feasible and which will improve the strategic position of compensation given the needs of the federal government. In recent months we have written two additional pieces, which address broader issues of compensation reform (Condrey et al 2012a; 2012b). We believe these additional articulations highlight a broad strategy for an effective federal compensation system. Links to the articles published in academic journals are below and available on the website, www.memostoleaders.org.

Condrey, Stephen E., Rex L. Facer II, and Jared J. Llorens. 2012a. "Getting It Right: How and Why We Should Compare Federal and Private Sector Compensation" Public Administration Review. Forthcoming. http://onlinelibrary.wiley.com/doi/10.1111/j.1540-6210.2012.02664.x/abstract

Condrey, Stephen E., Rex L. Facer II, and Jared J. Llorens. 2012b. "Reforming Federal Pay" Compensation and Benefits Review 44 (4): 202-203, 205, 207. http://cbr.sagepub.com/content/44/4/201.citati……on

MEMO 2: STRENGTHENING AND STREAMLINING FEDERAL RECRUITMENT AND SELECTION

From: ***Stephen Condrey, Rex Facer and Jared Llorens***

The Federal Government workforce, much like the U.S. population, is aging significantly. As a result, there will continue to be an increase in retirements among federal employees. Recently, the Office of Personnel Management (OPM) announced a dramatic increase in retirement applications during the 2011 fiscal year. OPM expects that there will continue to be higher levels of retirements in 2012, a trend that should continue on its projected path, as 60 percent of the federal workforce will be eligible for retirement between 2012 and 2016. As a result, the Federal Government will need to hire a significant number of new employees and, in order to accomplish this critical task, we believe the Federal Government should undertake a renewed effort to reform and reinvigorate agency hiring systems.

Research by the Merit Systems Protection Board (MSPB) has found that the Federal Government has generally been quite successful in hiring talented individuals with the skills necessary to carry out agency missions. Despite this success, however, the MSPB, along with many outside experts, has identified several significant shortcomings in the federal hiring process. These include inefficient and overly complex hiring systems, inadequate employment branding strategies, ineffective assessment systems and, in some cases, a lack of expertise among federal human resources managers in cutting-edge recruitment and retention strategies.

While the negative effects of these shortcomings have been minimized during the recent economic downturn, due to increased labor market demand for public sector jobs, these shortcomings will be more evident as the overall economy improves and the Federal Government is forced to recruit highly qualified applicants in a more competitive labor market. Given that the selection of quality employees is a key element of strategic human resource management, we recommend that the President and Congress pursue the following actions to improve federal recruitment and selection.

Recommended Actions

Guiding our recommendations are the following underlying principles:

1. Agency flexibility to effectively manage their hiring systems;
2. The protection of employees and applicants as promised by the merit system principles;
3. Maintenance of a high-quality workforce working towards the public interest.

Overall, we recommend that OPM continue its efforts to work with agencies to develop a government-wide framework for federal hiring reform. This framework should provide agencies with the necessary flexibilities to address agency needs while also preserving selection quality, as well as employee and applicant protections. The framework should provide guidance in streamlining and consolidating appointing authorities to simplify hiring procedures and make the employee acquisition process more transparent and comprehensible for HR staff, selecting officials, and applicants.

To begin this process, we offer five recommendations based on research provided by the MSPB:

- **Improve the strategic perspective of hiring.** Agencies should view and manage hiring as a critical business process, not an administrative function. Recruitment and selection should be designed as a continuous, long-term investment in attracting a high-quality workforce capable of accomplishing the organization's mission. Recent efforts to improve internships, the presidential management fellowship, and other recruitment strategies are quite positive. Accordingly, discussions of agency branding and hiring system reforms should be integrated with the overall strategic plan and mission of the respective agency.

- **Agencies should assess their internal hiring processes, procedures and policies.** Such an assessment should better identify barriers to quality, timely, and cost-effective hiring decisions. Often, hiring barriers are self-imposed and rooted in past practices without a strategic guiding principle. For example, agencies may continue to impose excessive time frames, which may have been necessary when applications were processed manually.

- **Agencies, with the assistance of OPM, should employ rigorous assessment strategies that emphasize selection quality, not just cost and speed.** In particular, agencies should develop and use assessment instruments that have a relatively strong ability to predict future performance. Multiple assessment tools used in succession can improve the effectiveness of the assessment process by managing the candidate pool and narrowing the field of qualified candidates. Agencies should work with OPM to develop assessment tools that can be used for occupations that cut across agencies. This would increase the Government's return on investment for these assessments.

- **Agencies should improve efforts to manage the applicant pool while making the process manageable for applicants.** Recent improvements to USAJobs.gov and the developing use of mobile e-recruitment platforms have resulted in significant strides in this area. However, there is still a need to continue to improve recruitment strategies, vacancy announcements, and communication with applicants. For example, enhancing ongoing communication with applicants will encourage applicants to await a final decision rather than abandon the federal job search in favor of alternative employment.

- **Human resources staff and selection officials need to be appropriately trained to think strategically and carry out the full range of services necessary to implement an efficient recruitment and hiring system.** In particular, OPM should bolster its efforts to inform hiring officials about their critical role in the hiring process, the importance of using good assessment tools, what assessment tools are available to them, and how to use the probationary period to alleviate selection mistakes.

MEMO 3: ENHANCING FEDERAL TRAINING AND DEVELOPMENT

From: *Stephen Condrey, Rex Facer and Jared Llorens*

There is little debate that the jobs of federal workers have become more exacting, especially as workloads have increased with a slimmed-down federal workforce. Today, the training, development and educational needs of the federal workforce, both civilian and military, are among the most demanding of any organization. Federal workers must come with higher levels of education to qualify for their professional jobs. Despite aspersions in the political arena, federal agencies are expected to be organizational role models, technological trendsetters and articulators of best practices.

Recommended Actions

We recommend that the President and Congress reinvigorate federal training and development efforts to serve as a natural complement to compensation policies aimed at rewarding individual effort and achievement. Specifically, we recommend the following:

- **Increased emphasis on training and development by the Federal Government's political and bureaucratic leadership.** In order to achieve a cultural shift that welcomes and rewards training and development activities, these activities need to be supported at the highest levels of the government. Employees take their lead from political and bureaucratic leaders. If training and development are valued and rewarded in the federal workplace for a sustained amount of time, a shift in the organizational culture will have begun.

- **Specific funds need to be set aside for training and development activities.** A source or fixed percentage of funding not subject to normal budgetary pressures should be set aside to fund training and development activities. Such a funding source will provide necessary stability and continuity throughout budgetary peaks and valleys.

- **Closer ties between training and development and career progression.** A revitalized federal compensation system that links salary progression to individual achievement can most easily be accomplished through career ladders linked to individual training and professional development accomplishments. Such progression is transparent and appropriate for a large and diverse organization such as the Federal Government.

MEMO 4: IMPROVING EMPLOYEE / LABOR RELATIONS

From: *Stephen Condrey, Rex Facer and Jared Llorens*

The Bureau of Labor Statistics estimates that 28 percent of the Federal Government's 3.5 million full and part-time employees are members of a union. Unions represent federal workers who are both members and non-members. In total, just over 31 percent of federal employees are represented in union negotiations and the two largest unions representing federal employees are the American Federation of Government Employees (600,000 covered employees) and the National Treasury Employees Union (150,000 covered employees).

Given restrictions on negotiating issues related to pay and benefits, federal unions have historically focused their collective bargaining efforts on employee working conditions. However, the on-going political discussion concerning federal employee pay and benefits, coupled with ongoing federal employee pay freezes, has served to chill overall labor/management relations at the federal level. Still, the cooperation of federal employee unions will be key to initiating meaningful and comprehensive reform efforts affecting all facets of the federal human resource management system.

A recent effort of the Obama Administration was the creation of the National Council on Federal Labor-Management Relations (NCFLRM). The 17-member council is comprised of management representatives from across the Federal Government and is co-chaired by the Director of the Office of Personnel Management (OPM) and the Deputy Director of the Office of Management and Budget (OMB). Seven union officials, five agency representatives, the chair of the Federal Labor Relations Authority, and the presidents of the Senior Executives Association and the Federal Managers Association make up the remainder of the Council. The Council provides for overall coordinative efforts concerning federal labor-management relations.

Recommended Actions

Given the need for full labor cooperation in implementing critical human resource management reforms, we recommend the following actions:

- **Union cooperation should be sought in implementing comprehensive human resource management reform efforts.** Reform cannot be successfully implemented without the cooperation of federal employee unions.

- **The National Council on Federal Labor-Management Relations (NCFLMR) is an excellent avenue to increase overall coordinative efforts between federal management and employee unions – its use should be encouraged.** The continued use of NCFLMR should be encouraged, as should the use of labor/management councils at the agency level.

- **Federal management, unions and other interested groups should begin a coordinated effort to improve the image of the federal workforce.** Such an effort will enhance recruitment and selection efforts as well as dispel inaccurate perceptions of the federal workforce. The NCFLMR should coordinate these efforts in cooperation with ASPA, NAPA, the National Association of Schools of Public Affairs and Administration (NASPAA), the Partnership for Public Service, and other public service organizations.

MEMO 5: ENHANCING THE ROLE OF THE U.S. OFFICE OF PERSONNEL MANAGEMENT

From: *Stephen Condrey, Rex Facer and Jared Llorens*

Since the passage of the Pendleton Act of 1883, there has been a sustained need for strong leadership in the management of the federal civil service system. While the Civil Service Commission originally fulfilled this role during a period defined by centralization and standardization, the OPM has sought to maintain this role under increasing pressures to decentralize and delegate personnel management authority to the agency level.

While the move towards decentralization has allowed for increased flexibility and experimentation at the agency level, the diversity and complexity of contemporary approaches to agency personnel management has called attention to the need for increased oversight and leadership by OPM to ensure that agencies operate in accordance with Merit System Principles and that efficient and effective personnel management practices are in place throughout the Federal Government.

Recommended Actions

We recommend that the President and Congress support OPM in addressing the following actions:

- **Comprehensive evaluation of the personnel management operations of Title 5 and Title 5-exempt agencies.** As part of the transition towards more flexible personnel management systems, there are a number of federal agencies currently exempt from the civil service rules and procedures outlined in Title 5 of the U.S. Code. As a result, the current landscape of federal human resource management is considerably varied, with some agencies operating under strict Title 5 guidelines and others provided increased flexibility to tailor their personnel systems to their unique needs. While the overriding intent of agency exemptions to Title 5 has been to enhance agency personnel operations, OPM should initiate a comprehensive review effort to assess the benefits of Title 5-exempt federal personnel systems and how these potential benefits might be achieved across all agency personnel systems.

- **Comprehensive assessment of the efficiency and effectiveness of Title 5 personnel requirements.** Related to the first recommendation, we believe that the current personnel management structure outlined in Title 5 of the U.S. Code should be substantially restructured to better align with the realities of managing federal personnel in the contemporary labor market. For many years, OPM has led the effort to guide agencies on effective means of managing their personnel resources within the existing statutory framework of Title 5, but, given the rapidly changing workforce environment, we believe that it is the appropriate time for OPM, along with the President and Congress, to identify and revise those portions of Title 5 not fully compatible with the needs of high performing human resource management systems.

- **Reinforcement of OPM's Leadership Role and Human Capital Capacity.** This recommendation centers on strengthening OPM's image as the "go to" source for human resource related consulting services. A significant portion of OPM's work is currently driven by agency requests for service. However, this role can be expanded. This will likely require a restructuring of the agency to leverage resources. OPM needs to be seen as the primary source for solutions, strategies, and services for the federal HR system. For example, OPM can further bring together resources much like it has done with the HR University program. HR University is designed to increase the professional development of human resource professionals across the Federal Government by identifying the best training resources and sharing those resources across agencies. If OPM strengthens its internal capacity to provide additional consulting type services, this may result in substantial savings for the Federal Government across agencies. Another example of the kind of effort that should be fostered is OPM's recent establishment of the Innovation Lab. The Innovation Lab brings people together in an environment that is designed to foster collaboration and creativity as they address challenging problems.

- **Increased leverage of technological innovation.** Human resource management over the past 20 years has moved away from standardized processes; however, technological advancements over the past 10 years have created opportunities for more effective personnel management efforts through greater standardization and agency collaboration. For example, most agencies were granted the authority to develop and manage their own recruitment and assessment practices in the mid-1990s. The result has been a highly variable recruitment and assessment landscape where a select group of agencies have fully leveraged newer Web 2.0 technologies in this area (e.g., the U.S. Peace Corps) and others, often with less expertise and/or funding, maintain practices that are dated or ineffective in recruiting and placing younger job applicants. Overall, such technological variation is not conducive to achieving broader personnel management goals, and OPM should take the lead in identifying those areas where standardization might benefit all agencies.

CONCLUSION

It is our hope that the above will serve as an outline for creating a learning organization in the federal workplace. These five recommendations provide the basis for creating a revitalized federal workforce that recognizes and rewards its talented seasoned workers, but also creates an organizational environment that better attracts and retains the talented and dedicated workers needed to guide the Federal Government in years to come.

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NEXT STEPS IN IMPROVING PERFORMANCE

By Donald Moynihan

Since the passage of the Government Performance and Results Act (GPRA) in 1993, the federal government has gradually expanded the use of performance management techniques, with many of the most recent process changes codified and mandated in the GPRA Modernization Act of 2010.

The evolution of performance management in government has seen a gradual shift from an emphasis on generating acceptable performance data on an annual basis to creating routines that will better use these data in a more timely fashion. Federal agencies are seeking to make the leap from treating performance management as a check list of mandated activities that must be complied with to a tool that will allow them to improve performance. If successful, these routines will gradually enmesh themselves in the culture of the federal government.

For an administration that is serious about improving federal government performance, the Modernization Act provides a workable framework that is flexible enough to meet the different goals of either party. The primary management challenge faced by the White House in the next four years will not be to pass additional legislation or to establish a new reform agenda. Instead, it will be to create the conditions necessary for the success of the Modernization Act.

The fundamental issues faced are not new, and are explored in the memos that follow. All memos are addressed to national leaders, with particular focus on President Obama. However each memo has a particular audience:

- The first memo describes the new requirements and opportunities created by the Modernization Act, which will be of particular concern to President Obama's transition team and OMB staff who will oversee implementation.
- The second memo details the need for executive branch agencies to proactively work with Congress on performance issues. It will be relevant to both agency and Congressional staffs.
- The third memo outlines the management practices that will best enable agencies to succeed. It is targeted to both OMB and agency-level leaders of performance management.

MEMO 1: LEVERAGE THE NEW FEDERAL PERFORMANCE MANAGEMENT SYSTEM TO IMPLEMENT PRESIDENT OBAMA'S AGENDA

From: ***Donald Moynihan***

Rather than seek to develop a new performance management framework, the White House should build on a solid foundation that has been gradually developed over the past two decades, while better integrating it with the analytical capabilities within government.

The GPRA Modernization Act of 2010 includes many new requirements that President Obama will have to enact for the first time. He can use these requirements to help implement his agenda, while also working with Congressional actors as the law requires (see Memo 2, *Active Congressional Consultation Will Make Getting Things Done Easier*).

The following are the key requirements of the Modernization Act that the President should use. More detail can be found in Part 6 of the recently revised Circular A-11 (http://www.whitehouse.gov/sites/default/files/omb/assets/a11_current_year/s200.pdf) produced by OMB.

Key Actions in First 100 Days

The GPRA Modernization Act requires a governance structure. You need to appoint key officials quickly to effectively implement the many time-critical requirements in the new law.

- The Deputy Director for Management in the Office of Management and Budget has a critical role in the Act's implementation and in the leadership of the entire performance system. Fill this role fast.
- The deputy secretaries typically serve as their departments' Chief Operating Officers. Put managers, not policy experts, in these roles.
- Agencies must designate Performance Improvement Officers. They are the Chief Operating Officer's right hand. These officials can be appointees or career executives, but if an appointee is selected they should have a career back-up. Such back-ups are needed because OMB requires acting Performance Information Officers or Chief Operating Officers if those positions are vacant.
- Agencies already have in place over 100 "priority goals." By law, each must have a designated goal leader. These officials are responsible for overseeing the achievement of a specific goal, and leading discussion on these goals in quarterly reviews. There are also 14 cross-agency priority goals. By law, each must have a designated "senior accountable official" identified by OMB. An Obama administration should re-confirm or, if needed, newly determine who will have the leadership responsibility for each of the goals cross-agency priority goals. The current administration can concentrate more on ensuring that good career executives are backing up existing appointees to brace against likely turnover.

The responsibilities for each of these positions are detailed in guidance to agencies provided in the latest OMB Circular A-11. (http://www.whitehouse.gov/sites/default/files/omb/assets/

a11_current_year/s200.pdf) These descriptions can be used when filling these jobs and to set expectations for incoming appointees, whether political or career, as to what will be expected of them.

For all of these positions that will be filled by a political appointee, the Office of Presidential Personnel must put a new emphasis on performance management and analytic skills – goal-setting, measurement, analysis, and evaluation. Relevant experience matters. Thus far, the most successful performance reviews in government often occur because key managers had experience in managing similar reviews at the state or local level, or in business. More broadly, experience in managing with data and strong analytic capacity in large programs should carry greater weight than in the past when vetting appointees.

Following are some recommended expectations that hiring executives should explicitly set for these officials.

Set an expectation that your appointees will improve performance by increasing the use of performance data.

In pursuing the changes noted above it is important to define a realistic measure for success. The ultimate goal of performance systems is to improve governmental performance. But the federal government generally undertakes complex tasks where it is difficult to isolate the relative impact of government itself on these outcomes, far less the role of a performance management system. An intermediate measure of success is whether federal actors are making systematic use of performance data.

Ultimately, success will be reflected in a widespread ethos of performance improvement, which can be measured by use of performance data, evaluations, and other evidence to shape decisions. Within the executive branch, this means that federal managers are using data in budget and implementation decisions, to motivate and manage their employees, and to redesign processes to improve outcomes.

GAO has periodically tracked performance information use since 1997, finding little aggregate change in the levels of performance information use over time, even as employees agree that data have become more available. Keep track of these numbers to inform the progress you are making. OPM, in consultation with OMB, should review the annual employee values survey data it collects, and focus greater analytic attention on questions that deal with employee awareness of and use of organizational goals and performance data, and provide an analysis of trends in those areas government-wide, by agency, and, within agencies.

For performance information to be used, it should also be useful. A long-term problem has been that the quality of data have been weak, or data have not met the needs of diverse audiences. Some changes will help to improve data usefulness. The Modernization Act identifies different types of goals that are assumed to be useful to different audiences, distinguishing between high-profile and cross-cutting goals relevant for more senior officials versus agency goals that are the focus of program managers.

It would also be helpful to broaden the understanding of performance information beyond goals and measures to also include evidence from evaluations and policy analyses that are relevant to assessing program outputs or outcomes (for more on this point, see Memo 3 Management Strategies for Working with Agencies).

Set an expectation that your appointees will be responsible for building the skills and capabilities to foster better performance.

The Act codifies the government-wide Performance Improvement Council, made up of OMB Deputy Director for Management and agency Performance Improvement Officers.

By tradition, the Deputy Director also chairs the President's Management Council, comprised of the chief operating officers of the top 24 departments and agencies.

Ensure that these Councils focus not only on compliance with the requirements in the law, but also with building the skills and capacity to foster the implementation of the Modernization Act. The Council should be a forum that generates and diffuse innovations in approach to agencies, and develops greater analytical capacity within agencies (see Memo 3, *Management Strategies for Working with Agencies*). For example, the Performance Improvement Council has created a working group to define what constitutes a good measure. The law also mandates that the Performance Improvement Council facilitate the achievement cross-agency priority goals.

Set an expectation that your appointees should use administrative flexibilities whenever possible to reduce burdens on state and local governments and encourage innovations.

In addition to the Modernization Act, the Obama administration released guidance on expanding administrative flexibility as a mechanism to identify and reduce burdens on state and local governments. The potential of this initiative grows if you choose to include it as part of a broader performance management and improvement approach of the new administration. The federal government can play a role in encouraging state innovation, ensuring the collection of comparable statistics, and identifying evidence-based practices that work well.

Key Actions in the First Year

The new law has a number of requirements that must be completed by the end of the administration's first year. This will take concerted action because it can heavily influence the success of your policy agenda, or it could bog agencies down in mindless paperwork.

Agencies must develop a 4-year strategic plan and an annual performance plan with specific indicators.

Under the new law, these plans are now co-terminus with Presidential terms. This provides a mechanism for a President to define and measure progress toward broad policy goals. Agencies must submit new strategic plans containing your priorities along with your FY 2015 budget in February 2014. Each agency must also submit an annual performance plan with annual goals – including agency priority goals – each year.

Developing these plans should start as soon as your agency heads are sworn in, and your policy staff should be engaged in ensuring they reflect your agenda. Agencies must also consult with Congress on the content of their plans, so this will require acting sooner rather than later.

OMB has already developed detailed guidance and a timetable on how this performance information should be presented (see OMB Circular A-11). This should ensure that the timing of the creation of these new goals serves the President's priorities.

Agencies must report performance data on a quarterly basis, and hold data-driven quarterly reviews of agency priority goals.

Each agency already has a small number (roughly 2-8) of designated agency priority goals. These goals seek improvement on key items that were embedded in their current strategic plan.

These are not long-term goals, but targets that are achievable within a 24 month time-frame. By law, agency leaders must hold a quarterly progress review of these goals.

You will want to pay careful attention to this set of goals. They represent the top implementation goals (i.e., do not depend on new legislation or new resources) that an agency leader commits to achieving, and should reflect Presidential and legislative priorities. You can re-cast them in the coming year as a part of agency strategic and annual planning processes. Ensure your Deputy Director for Management at OMB and the Chief Operating Officers are personally involved.

OMB must produce the first-ever federal government performance plan featuring cross-agency priority goals and targets for improved government performance, reported annually with quarterly reviews.

This new requirement is due in February 2014, along with your FY 2015 budget. You can build on an interim set of 14 cross-agency priority goals, created in the President's proposed FY2013 budget.

These are critical goals that will signal the priorities of your administration. An Obama administration will want to decide whether or not to continue the interim set of cross-agency priority goals.

OMB must develop a federal website to report performance goals (currently performance.gov) **and agencies must place their strategic and performance plans on it.**

OMB is required by law to activate this website in the Fall of 2012 to report on the status of agency performance. It will be updated about the time of the inauguration, and then again after the agencies' spring quarterly priority goal progress reviews.

White House policy staff should have the opportunity to review what goes on the website and ensure it reflects your priorities. The Obama Administration did not post quarterly performance data on its first set of agency priority goals, established prior to the passage of the Modernization Act, and was criticized for not living up to its transparency goals. Eventually, these data were included in annual performance reports and posted performance.gov, but the law requires quarterly reporting on priority goals begin once the site is operational and annual reporting on all goals.

OMB is expected to identify goals agencies failed to achieve, and to require remedial action. Use this authority to focus greater agency attention on strategic reviews.

This authority is new and has not been used before. Your administration will be the first to develop the decision-making process for judging the progress of agency strategic goals. Unmet goals, by law, are subject to a graduated response from OMB.

OMB guidance has outlined an approach that organizes these reviews around about 300 "strategic objectives" which are a subset of agency strategic goals.

Agencies have traditionally paid most attention to strategic goals for the purposes of simply updating their plans, rather than engaging in a true strategic analysis of progress. When agencies know that they must face annual OMB attention to progress on strategic goals, this should encourage them to undertake more serious strategic reviews. OMB can encourage such reviews by asking the type of questions that will encourage agencies to engage in reflections on experience and relevant evaluations, identification of areas of progress or opportunities to improve, and decisions on a path forward to better achieve goals (see Circular A-11 for more detail on how strategic annual reviews should occur).

MEMO 2: ACTIVE CONGRESSIONAL CONSULTATION WILL MAKE GETTING THINGS DONE EASIER

From: ***Donald Moynihan***

Congress has a paradoxical relationship with the federal performance management system. On the one hand, it has been the author and primary force behind legislation that creates the basic foundations of this system. It also holds a unique capacity to convene a public dialogue about federal performance through its oversight and budgeting functions, and has included requirements in the Modernization Act for agencies to treat Congress as a key participant in goal-setting.

For all that, Congress has been ambivalent in engaging with performance management. In some cases, it sets explicit goals in law and mandates specific measurement practices which agencies then incorporate in their performance management systems. In other cases, it delegates this authority to agencies, or has been hostile to the use of performance measures.

Since the setting of goals is also the setting of policy, it is understandable that the legislative branch will be generally reluctant to accede to any initiative that it perceives as offering the executive branch greater power. There are not currently strong incentives for Congress to pay attention to performance information, and if relevant committees are interested in such measures they can simply ask agencies to produce them. This is problematic because goal clarity is central to mission achievement. When the White House and Congress direct agencies to achieve contrary goals, the ultimate goal of performance management will be undercut.

Key Actions in the First Year

Improving Congressional consultation process should be a priority that is articulated as an expectation of new political appointees in positions related to the performance management framework described in Memo 1.

The White House should encourage agencies and OMB to proactively consult with Congress early in the goal-setting process, and demonstrate a willingness to reflect Congressional priorities.

The Modernization Act requires agencies and OMB to actively consult with Congress and stakeholders in setting all type of performance goals. Agencies are required by law to reach out to Congress on the agency priority goals, and the administration is required to do the same on the federal priority goals. For cross-agency priority goals, OMB must consult with key budget, appropriations and government oversight committees.

Historically, agencies develop goals which are shared with Congress only after vetting from OMB. This dynamic exists because of a tradition of pre-decisional confidentiality that originates with the budget decision-making system. While an appropriate standard in budgeting, the use of this practice for performance management has been problematic, giving Congressional committees the sense that “consultation” is being done after decisions were made.

The Obama administration needs to set expectations among its key leaders in the performance management system that they are to proactively engage relevant Congressional committees in a meaningful consultation process. This should starting in the early summer of 2013 as agencies begin their updates to their strategic, annual, and priority goal planning efforts.

The White House should set an expectation of its performance improvement leaders to make performance information more useful to Congress.

Improving the consultation process cannot depend solely on meetings. Having useful and clearly understandable information in advance of a meeting is essential to creating a context for meaningful dialogue.

Congressional members and staff are used to receiving information that has been carefully designed to meet their interests. This is generally not their experience with performance data produced by the executive branch. When Congressional staff are directed to a website with performance data, they often find very detailed performance reports, or are offered budget justifications designed around performance goals. Because it is not formatted in a way useful to their needs, they have usually ignored them, and sometimes chided agencies for providing such data.

Agency chief operating officers should be expected to proactively reach out to their Congressional committees to find out what performance information is of particular interest to them, and work with them to agree on the best way to communicate these data in a way that meets their interests (see also Memo 3 Working with Agencies). These may be goals that reflect constituent interests, but committees may also be engaged by consideration of high-priority goals, or of non-mission based goals that reflect Congressional directives (for example, freedom of information act requests that capture transparency goals).

Technology can also be better harnessed to disseminate data to Congress. The Deputy Director for Management at OMB should be expected to set as a priority the improvement of the performance.gov website to provide more depth, detail and transparency, allowing users to select the level and type of information they are interested in, varying from in-depth program analyses with historical trends, to comparisons of high level goals across agencies.

Congress has a responsibility to engage.

While the executive branch can do more to engage with Congress, the ultimate responsibility remains with Congress to engage on performance issues in a systematic way. Congressional leadership in both houses will have to develop ways to coordinate input across multiple oversight, budget, appropriations and authorization committees, especially for cross-cutting agency goals.

The Congressional leadership should articulate a priority that it will use performance information as it carries out legislative responsibilities. Congress is not a monolithic entity, but at the very least appropriations, authorization and oversight committees should consider relevant performance data. Budget, appropriations and authorization committees could be encouraged to incorporate federal priority goals in funding decisions (see the related memo on Budgeting Strategically).

Relevant committees should meet with agencies when they reach out to discuss their goals, and also review the goals agencies set in their annual performance plans, raising questions if they need additional information about the proposed goals and planned agency actions.

Agency officials should come to Congressional hearings expecting to be queried about performance data. This does not mean that hearings should become a systematic Q&A about each performance measure an agency has. GAO has pointed to examples where Congress has opportunistically identified performance problems, and used oversight and legislative functions to enable improved performance that reduces costs and improves citizen services. It has also proposed the type of questions and inquiries that committee members can usefully employ (see GAO-12-215R).

Congress can also create incentives to improve innovation by offering the executive branch flexibility to move funding around programs where these programs share a set of goals. Such flexibility should be conditioned on clear and agreed-upon goals, frequent reporting and the use of evidence-based strategies.

MEMO 3: MANAGEMENT STRATEGIES FOR WORKING WITH AGENCIES

From: ***Donald Moyihan***

This memo focuses on management strategies to create the conditions for successful implementation of the Modernization Act.

Key Actions in the First Year

Creating conditions for success should be part of the expectations set by the Office of Presidential Personnel when recruiting for the key performance management positions detailed in Memo 1, such as the Deputy Director for Management at OMB, and key agency staff such as Chief Operating Officers and Performance Improvement Officers. To reinforce these expectations, relevant Senate committees could raise these expectations related to performance management during the confirmation hearing process.

Expect the OMB Deputy Director for Management and Chief Operating Officers to invest effort in developing mechanisms and strategies to improve collaboration across agencies.

The emphasis that the Modernization Act places on cross-cutting goals underlines the fact that many federal government tasks require coordination across multiple agencies. The Modernization Act articulates two elements of these cross-cutting goals: improved outcomes in particular policy areas, and management improvements. Calls for greater collaboration across bureaucratic stove-pipes are not new, but the cross-cutting goal mechanism provides a stronger means to foster such collaboration than ever before.

To coordinate multiple agencies working toward overlapping goals requires treating these collaborations as inter-organizational networks (see also the memos on Reorganization of Government and Strengthening the Federal Budget Process at www.memostoleaders.org). Networks like these need some basic governance mechanisms to determine how information is exchanged, and how decisions are made.

The Modernization Act requires goal leaders to be named for these cross-cutting goals. Those filling these positions face a challenging task, since they must coordinate a group that they have limited hierarchical control over. Agencies may share similar goals, but have diffuse responsibilities. Amid budgetary scarcity, program managers may see few budgetary rewards for coordination if they believe such processes will highlight duplication and mean a loss to agencies.

Studies of networks and collaborative governance emphasize the importance of trust and ongoing relationships to foster coordination. But there is still much we do not know. The Obama administration should seek examples of where collaborations between multiple agencies are working well, and identify what governance mechanisms contribute to these outcomes.

Expect the OMB Deputy Director for Management and Chief Operating Officers to make data-driven reviews a signature management initiative.

By requiring quarterly review of goals, the Modernization Act creates a routine of data use within agencies for monitoring achievement on programmatic goals. Annual performance reviews with OMB will focus on larger strategic goals addressed in the strategic plan. These tools are the most powerful revision to management practice provided by the Modernization Act. They will signal to agencies how serious your administration is about management, and cannot become pro-forma exercises.

Key senior officials, such as the OMB Budget Director or the White House Chief of Staff, should brief President Obama quarterly on the progress of agency priority and cross-cutting goals. At the agency level, OMB should ensure that Chief Operating Officers are leading the agency performance reviews. More than any other manager, the Chief Operating Officer has the knowledge of agency operations, the standing to ask tough questions, and the authority to change processes when it will improve performance. They need to view performance reviews as an essential aspect of their job rather than a task to be delegated to others. More advice on the qualities of effective data-driven reviews can be found in Circular A-11.

Expect agency leaders and Chief Operating Officers to demonstrate leadership commitment to performance.

One of the clearest research findings about performance management is that such systems are more likely to succeed when they have the clear and widely-perceived support of agency leaders. Leadership commitment means more than talking about performance. Employees will notice if words are not accompanied by the commitment of leadership time and organizational resources to performance management efforts. Without such commitment, agency employees will not commit either.

The Modernization Act raises the stakes for leadership commitment. Federal leaders have more opportunity to demonstrate this commitment by visibly using performance data and evaluations in major decisions, focusing attention on high priority goals, and supporting quarterly reviews. But if they fail to do those things, the absence of leadership commitment will be more obvious than before.

Expect the OMB Deputy Director for Management and Chief Operating Officers to build a results-oriented learning culture.

Leaders not only commit to performance management processes, they also set the cultural tone for how such processes are used. Leaders should primarily pursue a leaning approach to the use of performance measures, which calls for employees to acknowledge problems, question basic assumptions, and invest their ingenuity to solve problems. If performance measures are seen primarily as a punitive tool to target poor performance, employees will perceive performance management as an ordeal to survive and will respond defensively.

The quarterly performance reviews will be important for establishing the cultural tone for performance management. While the temptation will always be there to use these forums to point fingers and allocate blame, ultimately managers retain a significant information advantage over leaders. Because of this they will be able to largely evade or disrupt a process of control they regard as illegitimate by, for example, setting targets they know will be achieved, or cherry-picking favorable data. The information advantage will be better reduced by creating a cultural tone where managers feel comfortable openly discussing problems rather than hiding them. For example, in a learning culture goal leaders should be held to an expectation that they can articulate the causes of performance and propose innovations.

The newly-created annual strategic objectives review between OMB and agencies over unmet goals is another setting that needs to find the right tone. These reviews will allow OMB to ask tough questions about progress on high-level goals, which is valuable. OMB should use its new responsibility to create an environment that keeps agencies pushing to achieve significant improvements in outcomes and productivity and avoids pushing agencies to pick easy targets. Research shows that people contribute greater effort when they pursue goals that are difficult but achievable. Agencies should feel encouraged to pursue such goals, rather than incentivized to avoid them.

Setting the right cultural note is difficult for leaders, but it will be aided if OMB (both the budget and management staffs), and the Performance Improvement Council work to emphasize the importance of learning as a key to performance improvement, and if Chief Operating Officers are guided on how to use performance management for this purpose.

Expect Chief Operating Officers and goal leaders to use benchmarking to foster improvement.

Benchmarking means identifying best-in-class in an industry or function, and comparing key performance metrics against these high performers. It has been underutilized in the federal government. If agencies use it well, it will encourage greater use of performance data to define stretch targets, learn what factors create success, and motivate employees. Reflecting a learning culture, the goal should be to look for positive outliers and best practices that can inform the efforts of others.

Benchmarking may not be relevant for all functions where a peer is not available, but there are many opportunities in the federal government. Any function which is undertaken by distributed units can compare the performance of these units on key items on a more frequent basis. These could be regional offices of the federal government, state and local government recipients of federal grants, or other grantees.

Expect the OMB Deputy Director for Management and Chief Operating Officers to strengthen and integrate analytical capacity across the government.

The performance challenges facing the federal government demand both a new set of skills among employees, as well as a better integration of existing skills.

Based on the Modernization Act, OPM identified a new set of skills and competencies to carry out performance management activities. Especially important is an ability to communicate performance information well and to think about how it will be used. Communication includes the ability to understand the needs and interests of different audiences, and to select and explain data of interest to them. Those who are appointed to be goal leaders will need to be able to convene and facilitate discussions about the meaning of performance, and convert that dialogue into process improvements or policy suggestions.

Another positive and low-cost step to strengthen capacity is to better integrate existing analytical skills. Organizational learning theory emphasizes the value of bringing together staff with complementary skills and perspectives. Agencies employ talented program evaluators and policy analysts with skills that allow them to consider how to prioritize competing goals and understand why performance is or is not improving. Too often, these analysts are not brought to the table when performance measures are being discussed. This is a mistake.

The Obama administration should prioritize integrating the communities of policy analysts, program evaluators and managers charged with improving performance. OPM should modify proposed performance skills and competences to also include program evaluation and analysis skills for program managers, not just the analysts who support them.

Quarterly performance reviews should become a venue that incorporates program evaluation information, and the participation of staff trained in program evaluation and policy analysis.

OMB should work with agencies to make sure they commission appropriate evaluations to complement performance measurement efforts.

Another means to spur the use of evidence to improve performance is to link funding to evidence. This could be funding to provide grants for promising but unproven innovations; resources to scale-up innovations where there has been significant evidence of its success; or the use of evidence to adjust formulas in federal grants.

These memos were prepared by Donald P. Moynihan, La Follette School of Public Affairs, University of Wisconsin-Madison (dmoynihan@lafollette.wisc.edu). They benefited from extensive and always helpful comment from the following: Mark Bussow, Clinton Brass, Dustin Brown, Elizabeth Curda, Matthew Dull, Philip Joyce, Philip Kangas, Shelley Metzenbaum, Christopher Mihm, Kathryn Newcomer, Steven Redburn, and Robert Shea. Particular thank to John Kamensky, who was instrumental in organizing this memo and in providing very sage advice. The opinions expressed in this memo do not necessarily reflect the positions of those who offered comment, or their organizations.

MANAGING BIG INITIATIVES

By Dwight Ink, John Kamensky and Harry Lambright

Every President will likely face the need to get large-scale initiatives done sometime during his term of office. "Large-scale initiatives" refers to challenges that reach across agency and program boundaries, oftentimes involving states, localities, citizens, businesses and the non-profit sector. Recent examples include the implementation of the Recovery Act, initiating large-scale management reforms across the government, or undertaking big science projects such as the Human Genome Project.

The governance framework for such initiatives will differ depending on whether the big initiative is thrust upon the President, such as a large-scale economic or natural emergency, or whether it is self-initiated, such as the interstate highway construction project, or whether it is a large-scale, long-term science or technology initiative. Oftentimes, the framework was developed in an ad hoc manner, since the initiatives were seen as unique.

However, by looking back at previous large-scale initiatives, there are common success characteristics that should be incorporated into any future initiatives. For example:

- A seasoned senior executive was put in charge to lead the effort, with a simple organizational structure, and streamlined operations.
- There was a shared clarity around mission, goals and objectives among key stakeholders.
- There was a core team of innovative federal employees who are comfortable with change and whose main job was focused on transformation.
- There was cross-agency and cross-sector collaboration around common outcomes.
- There was a sense of urgency that promotes rapid resolution of day-to-day issues.
- The initiative provided an unusually high level of transparency during implementation.
- There was freedom to innovate and deviate from existing administrative rules if necessary.

The memos that follow offer several recommendations to the President and Congress on ways to incorporate these characteristics into the way government approaches large-scale initiatives in the future, to ensure greater chances of success. These include the President using existing new authority to manage large-scale initiatives as well as Congress providing new authorities and working in new ways with the executive branch.

MEMO 1: MANAGING LARGE-SCALE, TIME-URGENT PRESIDENTIAL INITIATIVES

From: *Dwight Ink*

Much of the public image of the federal government is that of a ponderous entity that lacks the capacity to respond nimbly or economically to major challenges. Not surprising, in view of our failure to handle the Katrina recovery, prevent the failure of our early attempts to help stabilize Iraq after our successful military operations, or our continuing failure to deal with the mounting debt and fiscal crisis. Yet, in a globalized and increasingly competitive world, major challenges cutting across departmental lines are increasing in magnitude and urgency.

Three Cases of Successfully Managed Large-Scale, Urgent Presidential Initiatives

Fortunately, failures such as those just mentioned are not difficult to avoid if we will profit from those cases in which we have found ways to overcome the typical obstacles to action. Three cases under very difficult circumstances illustrate how we can handle complex undertakings if we manage them properly.

Recovering from the 1964 Alaskan Earthquake. In 1964, the second most severe earthquake ever recorded devastated the portion of Alaska where most of the people lived. The surface shifted both vertically and horizontally over 55,000 square miles, making rebuilding the infrastructure above and below ground very challenging, and the short Alaskan construction season made the speed of recovery urgent. President Lyndon Johnson designated career executive Dwight Ink to lead the recovery effort. Working from the White House, he involved every significant federal agency. No Alaskan engineer believed the relocation, design, and construction of public facilities such as water and sewer systems, or the rebuilding of the fishing harbors on which the state economy rested, could be accomplished in the short construction season. Yet through innovative policies established by a cabinet-level commission and innovative project management administered by experienced career managers, the construction required to enable people to remain in Alaska was completed in record time.

Fixing the Y2K Computer Bug. Near the end of the 20th century, it became clear that a software coding decision made in the early years of the computer could prevent computers across the nation to move into the 21st century. President Clinton called upon an experienced manager, John Koskinen, to manage the transition. Many said it was too late, and the task too complicated to succeed, predicting horrendous consequences in both government and business operations. With the support of the President and OMB, Koskinen quickly organized the most massive interagency and intergovernmental coalition, together with businesses here and abroad. Rather than establishing a large organization with numerous procedures, he created a small staff and worked out of the White House. He relied on existing agency personnel and streamlined procurement and other administrative systems so that he could move rapidly. Instead of the chaotic morass of confusion widely predicted, Koskinen skillfully mobilized the resources of all these organizations in achieving a remarkable success.

Implementation of the 2009 Recovery Act. The American Recovery and Reinvestment Act of 2009 involved the allocation of roughly $800 billion – roughly equivalent to the size of the prior year's domestic spending. This legislation included a mix of tax cuts, grants to state and local governments, and new federal programs. These covered a wide range of policy areas, including healthcare, science, transportation, and energy. Everyone involved in this complex effort was under enormous pressure to move the funds very rapidly to help stem the rising rate of unemployment. At the same time, Congress had required an extra dimension of external oversight that was not always conducive to rapid action. Prospects for confusion, bottlenecks and scandals were believed to be high. The President designated Ed DeSeve, an experienced federal manager, to lead the effort. He was given a small staff and an office in the White House to organize a series of "managed networks" of stakeholders. These interagency, and intergovernmental, networks shared best practices, resolved misunderstandings, and created trust among a wide range of stakeholders.

Each of these three undertakings was regarded by many as impossible challenges. Each faced unprecedented levels of urgency, yet had no road map to follow. Each involved many, if not all, of the federal agencies, plus state and local governments and the private sector that had to work together. Each occurred under different Presidents and political environments that spanned a half century. Yet there were common attributes that were key to the success of these initiatives and are worth looking at for adaptation for future large undertakings.

Common Attributes of Successful Large-Scale Urgent Initiatives

Following are seven attributes that seemed to be present in most of the successful large-scale urgent Presidential initiatives over the past 60 years. These include:

Attribute 1: Experienced Leadership. Government experience is important for the political appointee selected to lead urgent undertaking in the event the political leadership is not provided by the President or vice President personally. Jim Webb's leadership in leading the NASA moon landing project is a familiar example. Likewise, the leadership of John Koskinen and Ed DeSeve was key to the success of those initiatives. All three had significant prior governmental experience as the head of the management part of OMB. Operational leadership must be in the hands of a person with extensive governmental operational experience, such as a career leader.

Attribute 2: Transparency. Investing in the establishment of transparent operations saves time because stakeholders better understood the decisions, and opposition is reduced. For example, the Recovery Accountability and Transparency Board posted on-line every dollar spent under the Recovery Act, along with information on how it was spent. In the case of the 1964 Alaska earthquake recovery operation, every operating decision was made in public meetings where the public could ask questions, make suggestions, or register objections. Accountability was clear.

Attribute 3: Structural Simplicity. Each of these three cases used small, central organizations working out of the White House, rather than building large organizations. Their roles were to provide leadership and coordination of existing agencies, not to take over operations that could be performed by existing departments and agencies that had resources a White House group could never replicate, but would add complexity that would likely cost more and slow operations.

Attribute 4: Streamlined Operations. Similarly, each of the three cases gave priority to simplifying or bypassing existing processes and taking care to add very few new ones. Because of the size of expenditures, the Recovery Act had to develop some new operating procedures, which were required for fiscal accountability. In Alaska, the executive director, Dwight Ink, had tacit authority from the President and key congressional committees to modify, or even suspend, agency procedures that jeopardized the construction timetables required to rebuild public facilities before the short construction season ended. Contracting timetables were sharply compressed.

Attribute 5: Innovation. The combination of complexity and urgency forced each of these three undertakings to provide an environment in which innovation and creativity were essential. This meant careful selection of personnel possessing these characteristics. Prior government experience enabled the leaders to assess the level of risks that could be safely taken.

Attribute 6: Collaboration. Each of these cases relied heavily on collaboration among federal agencies, but even more importantly, collaboration across levels of government and sectors in the economy. For example, fixing the Y2K bug affected not only government at all levels but every sector of society – healthcare, finance, industry, and more. In addition, it affected governments and the private sector around the world. Only addressing the problem in the U.S. was insufficient because of the interdependence of the global economy. So that effort required a global reach.

Attribute 7: Interdependence. Concentrating on just one of the foregoing attributes would have resulted in all three cases failing. For example, in the case of the 1964 Alaska earthquake recovery example, the high levels of transparency, the extra provisions for internal and external oversight, and the emphasis on selecting highly qualified leaders, all contributed to the public acceptance of the dramatic streamlining of operating processes. Otherwise, this approach would not have been accepted by Congress and the media would have launched an array of distracting investigations.

The federal government's capacity to address large-scale challenges that require numerous agencies, as well as state and local governments and the private sector, has declined over the years. Several actions are suggested.

Recommendations to National Leaders to Ensure Capacity to Address Large-Scale Urgent Challenges in the Future

Following are four recommendations that the President and Congress should act upon to ensure the needed capacity is there when the next large-scale, urgent national challenge faces the nation:

Recommendation 1: Use the Career Service More Effectively. The President should rely more heavily on experienced senior career staff to lead large-scale initiatives. Too often, the mindset of incoming political appointees is that their task is to "gain control of the bureaucracy" rather than empower it to move Presidential initiatives forward. The more complex and urgent the government effort is, the more likely that this mindset could contribute to costly failures.

Recommendation 2: Institutionalize the Role of OMB Management Staff. The President and Congress should restore and expand an institutionalized management staff within OMB, but outside the budget process. This staff would be responsible for the design of large-scale management initiatives on behalf of the President. This would include efforts spanning levels of government and sectors of the economy. Presidents used to be able to rely on a cadre of career staff to organize large-scale initiatives, called the Office of Executive Management. President

Roosevelt used it to establish and terminate World War II agencies; President Truman used it to organize the Marshall Plan; President Johnson used it to establish HUD and DOT, as well as organizing the Alaskan recovery; and President Nixon used it to launch a government wide organization and program streamlining agenda. The authority exists in OMB. However, Congress should raise its profile by institutionalizing and expanding the staff as it has already done in specialized areas such as procurement and information technology.

Recommendation 3: Restore Congressional-Executive Cooperative Arrangements. The current political climate is serious, but much could be done to restore cooperation on how government is managed as distinguished from the controversial issues surrounding what government is to do or not do. Much of the strength of the earlier Office of Executive Management resulted from reaching beyond narrow confines of budget processes to engage Congress and other actors in partnerships. This earlier management staff helped to establish special temporary congressional linkages in times of crisis. For example, President Johnson appointed a powerful senator, Clinton Anderson, to chair the cabinet policy commission for rebuilding Alaska. In addition, as reconstruction director, Dwight Ink detailed three experienced engineers from two congressional committees to serve as full time members of his staff, ensuring a constant flow of information between the two branches of government.

Recommendation 4: Pre-Authorize Emergency Measures. In times of crisis, special temporary arrangements should be authorized. For example, Congress should enact legislation that permits forwarding requests to Congress for authority to suspend certain categories of agency procedures for a specified period to expedite executive action. Transparency and reporting measures would be required, and some areas such as safety would not be eligible. In addition, Congress should modify its rules to facilitate congressional action during national crises, such as temporarily combining key members from several committees into a temporary committee. For example, during the Cold War, there was a House-Senate Joint Committee on Atomic Energy. Also an emergency, a Senate rule is needed to avoid filibusters during a crisis.

MEMO 2: MANAGING LARGE-SCALE, NON-URGENT PRESIDENTIAL INITIATIVES

From: *John Kamensky*

Presidents run for office because they want to do great things for the nation and the world. But how do Presidents get large-scale initiatives done? The President's White House staff typically focuses on developing policy initiatives and getting them adopted. But historically once a policy is adopted; it is delegated to an operating agency for implementation.

This hierarchical model has historically been effective and will continue to work for targeted policy initiatives in areas where a single agency is clearly the exclusive agent for action, such as the implementation of the No Child Left Behind Act. However, increasingly in recent years, success on really large Presidential priorities – climate change, health care reform, management reforms – has depended on extensive cross-agency, and sometimes cross-sectoral, efforts.

The traditional tools of governmental control -- accountability, resource allocation, and congressional oversight jurisdictions – are designed for the hierarchical agency model for implementation and oversight. Managing large-scale initiatives outside the bounds of these traditional tools does occur, but often as an outgrowth of a specific, time-bound, administrative implementation challenge, such as the government's response to the Y2K computer bug, the implementation of the Recovery Act, or to natural disasters.

The governance structure for administratively-initiated large-scale initiative will differ somewhat from government's response to unanticipated, large-scale emergencies – where pre-existing structures are in place and where the agencies involved regularly conduct actual or table-top exercises to keep their skills and networks active. The structure will also differ from presidential involvement in large-scale scientific endeavors, where it is important to develop long-term consensus among key stakeholders around outcomes that may take many years to bring to completion, often across presidential administrations.

Three Cases of Successfully Managed Large-Scale, Non-Urgent Presidential Initiatives

A review of recent large-scale administrative efforts has identified some conditions for their success, which largely build upon those conditions mentioned earlier for the urgent initiatives – effective leadership and appropriate organizational structures. For example, the following recent initiatives reflect these, as well as several other common attributes:

Reinventing Government Initiative. The Bill Clinton Administration during the 1990s launched a government reform initiative to make the government "work better and cost less to get results Americans care about." That effort extended the duration of the Administration's two terms in office. It was led by the Vice President and an interagency staff of career managers on rotation from their home agencies. Each agency had its own internal reinvention team. The initial project generated over 1,000 recommendations whose implementation were overseen by the Vice President's project team. These included procurement reform, streamlining administrative functions and technology reform. In later years, it also sponsored a number of other initiatives, such as streamlining regulations, customer service improvement, advocacy of plain writing in government, and the use of balanced scorecards to manage. The effort ended at the conclusion of the Clinton Administration.

Faith-Based and Community Initiative. The George W. Bush Administration undertook efforts to open up billions in grant money competition to faith-based and non-profit charities so they could be close partners of government in providing social services to the needy. He signed several executive orders, including one that laid out principles and policymaking criteria, and created a White House office devoted to this initiative, which was led by a deputy assistant to the President. Eleven major grant-making agencies were directed to create centers for faith-based and community initiatives and launch their own initiatives. Progress was tracked by the Office of Management and Budget. Thirty-three governors and 100 mayors created similar organizational structures in their respective state or city governments. The effort continued, with a number of changes, in the Obama Administration.

Open Government Initiative. The Barack Obama Administration launched a broad open government effort that focused on the principles centering around increased transparency, collaboration and citizen engagement. The effort was White House-led with agencies creating their own teams and plans of action. The President also advocated a parallel global initiative on open government, with nearly 50 other countries committing to a set of principles and developing their own plans of action.

Common Attributes of Successful Large-Scale Non-Urgent Initiatives

These various initiatives were typically based on guiding principles rather than detailed guidance. This allowed each agency to adapt the principles to their own operating cultures. Cross-agency working groups permitted the sharing of ideas and created a network of committed individuals. This also helped the White House embed these initiatives into the bureaucracy. In addition, each initiative relied on periodic symbolic events – such as new executive orders, awards, progress reports, and conferences -- to demonstrate the continued commitment of the President toward the initiative.

The common attributes of success among these initiatives include:

- Pairing a political head with a career deputy to offer "reach" into agencies involved in implementation;
- Replicating the function or initiative within agencies (and states, where appropriate) to provide greater reach and ongoing commitment within agencies;
- Measuring and reporting progress on a regular basis;
- Relying on agency-provided staff on temporary assignment;
- Relying on shared agency funding, either direct or in-kind.

Based on the experiences of these initiatives, the President should proactively anticipate the need for both the talent and the administrative governance framework necessary for successful implementation of his key policy initiatives.

Recommendations to the President to Ensure Capacity to Address Large-Scale, Non-Urgent Challenges in the Future

Recommendation 1: Identify a Cadre of Seasoned Executives. The President's transition team should consider designating someone – such as the Deputy Director for Management, a Deputy White House Chief of Staff, or the Director of the Office of Administration – as the point person to help lead the implementation of any large initiative once a particular policy has been adopted. Having such a contingent capacity in place will make it easier to take action and to ensure the elements of success from past efforts can be put into action.

This person should develop a list of highly-regarded individuals, from among the existing cadre of career senior executives, with experience in managing large-scale initiatives that reach across agency boundaries. This list should number between 50 – 100 people from across the government in different policy arenas. They should have prior experience in working on cross-agency initiatives.

Provide these people with targeted training and opportunities to convene among themselves, or at least with counterparts with common areas of expertise, so they can create informal networks. This approach is used successfully in developing senior military flag officers and should be expanded to their civilian counterparts. Also consider high-profile rotational assignments for these individuals, so they can expand their experiential knowledge across agency and expertise boundaries.

Recommendation 2: Develop a "Lessons Learned" Guide for Network Governance.
Seasoned and experienced leaders cannot operate alone. Past experience shows that they operate most effectively in the context of an effective governing approach. Recent experiences have been that such governance approaches either evolve before an initiative is undertaken, or one is put in place once a leader has been designated. For example, Ink, Koskinen and DeSeve all chose to use a small staff located in the White House, instead of a large team. They found it much less costly and far less time consuming to quickly streamline existing processes and expedite agency operations than to complicate operations with adding a series of new structures and processes.

Sometimes, however, a leader finds him- or herself designed and constrained by structures or processes that may have been put in place shortly before they took the position and they find themselves having to work within those constraints. Understanding these statutory or procedural constraints in advance is critical to developing an effective strategy.

Since a President will likely undertake a large-scale initiative during his term, he should early in his administration ensure a common understanding of effective practices is developed among key stakeholders who would be involved in implementing any such initiative. The GPRA Modernization Act offers the statutory basis for expanding the use of cross-agency initiatives to achieve policy priorities. This law also requires the President to identify a handful of cross-cutting priorities for implementation by February 2014. A handful of interim priority goals already exist, but each priority goal leader has been left to his or her devices in developing and staffing their individual priority goal teams. These interim efforts should be assessed and effective practices developed for use, beginning in early 2014, more widely by each of these teams, and by any other large-scale efforts proposed by the President.

The President's staff should undertake a "lessons learned" review of the governance approaches developed to manage the existing cross-agency priority goals. Successful practices from previous large-scale administrative initiatives, such as the implementation of the Recovery Act, should also be included. The resulting guide would speed the implementation of any new large-scale effort as well as improve the chances of success.

MEMO 3: MANAGING LARGE-SCALE PRESIDENTIAL SCIENCE AND TECHNOLOGY INITIATIVES

From: *Harry Lambright*

If the next President decides to take a major policy initiative in science and technology, he will be in good company. Since World War II, most Presidents have used science and technology ("Big Science") programs to achieve major purposes. They establish large-scale ventures—national projects—often costing billions. Most projects take longer to go from concept to conclusion than the tenure of the Presidents who started them. Indeed, there are projects that last so long that succeeding Presidents can put their stamp on an activity a predecessor began.

Consider what various Presidents have done since World War II. President Roosevelt authorized the Manhattan Project; President Truman, the H-Bomb; President Eisenhower, long-range missile development; President Kennedy, Apollo; President Nixon, energy independence; President Carter, energy independence; President Reagan, "Star Wars" (the space based missile defense project); President Reagan, the Space Station; President George H.W. Bush, back to the Moon and on to Mars; President Clinton, the International Space Station; President George W. Bush, Moon-Mars (called "Constellation") and President Obama, space commercialization. Most national projects start off as agency proposals and are subsequently elevated to Presidential status, the most notable example being the Genome Project, which Clinton made his own.

Why do Presidents adopt Big Science initiatives? Why do some projects succeed, while others fail? What lessons does history have for a possible future venture by the man sworn into office in January, 2013?

The answer to the first question is that Presidents use science and technology to solve or mitigate problems. The problems are typically war, cold war, energy security, health, or economic development. Moreover, they also find science and technology programs valuable in making a statement about national prestige. They see Big Science as engaging extremely talented people and the general public in great ventures that equate with "progress." They use science and technology to demonstrate leadership—for the nation and themselves.

Critical Success Factors to Consider

But, as the list above makes clear, not all initiatives succeed. What are critical factors in success and failure in Big Science? Following are factors that we recommend the President and his team seriously consider if he decides to commit his Administration to a "Big Science" initiative:

Realistic goals. The goals must be technically realistic. Reagan's call for an impenetrable defensive shield based in space was undoable. So was a now-forgotten initiative of Nixon to wage a "war on cancer." At the same time, goals should be bold—as Apollo and Genome Project were. That way they can capture the attention of the public and politicians and the funds to succeed. How the goals are framed is important. They have to be a good match with the problem to be addressed. The Moon landing within the decade, (a deadline) converted the Cold War competition with the USSR into a race that the US had a chance to win. The goal was clear, and clarity is important in focusing the nation.

Strong agency capacity. Big goals require strong agencies to carry them out. NASA in 1961 could not implement Apollo, but NASA in 1969 did so. Early in the 1960s, NASA was remade into a powerful organization. Where Big Science ventures succeed, there is a strong government agency in charge. Agencies can be built up, created anew, or reorganized to enhance capacity. They need outstanding personnel with "the right stuff." The Genome Project required transfer from DOE to NIH leadership and NIH needed to create a new institute to manage this project.

President Nixon, in seeking energy independence, did not establish an organization capable of promoting it effectively. President Carter, in pursing the same goal, created the Department of Energy—but it proved inadequate for the task.

Effective organizational systems. Science and Technology initiatives may be led by individual government agencies, but the work is performed by industry, universities and federal laboratories. Historically, these organizational systems have been dominated by domestic teams (e.g. Apollo had 400,000 people at its peak). But, increasingly, agencies in the U.S. require international partners in addition to domestic contractors and grantees. The Genome Project could not have been carried out at the pace undertaken without the partnership of NIH with a counterpart in England. Similarly, the International Space Station is an international project involving many nations. The U.S. (NASA) is the "managing partner," but is reliant on Russia for transportation to the facility. Without Russia, it is arguable whether the Space Station could have succeeded given US problems with the Shuttle (another Big Science project of note).

The US may not always be the dominant partner in a large-scale project. The Large Hadron Collider is a European project, with the U.S. as a junior partner. Typically, Presidents do not want initiatives where the U.S. is a minor player.

Another emerging model of an organizational system is seen under Obama and his commercial space effort. Here, the U.S. (NASA) seeks to create a new industry to take the place of the retired shuttle (and Russia) in transporting cargo and humans to the space station. Doing this requires public money, but also private money, with the balance in payments shifting from public to private over time. The goal of commercializing space is to free NASA to concentrate on deep space projects, ultimately Mars. Obama has made Mars the long-term goal, as had the two Bushes,. The difference is that Obama has called for an asteroid in 2025 as a stepping stone rather than the Moon.

Bi-partisan political support. Large scale science and technology projects require political support over the long haul. It is not enough to have goals that are technically ripe. They must be politically ready also in terms of congressional, interest group, and public support. And that support must be maintained through implementation. The first Bush came out with a Moon-Mars initiative that never reverberated with the democratic-run Congress. The second Bush also had a Moon-Mars initiative and he failed to give it political support in regard to promised resources. It is not clear how committed Obama was to his asteroid-Mars goals. Without big money, Big Science does not get done.

The real test lies with political will over the years. Apollo succeeded because Kennedy was followed by Johnson. When Nixon became President in 1969, Apollo was at the point of the lunar mission, and he let it happen. But he ended the Moon program in 1972. It would appear essential for these projects to get off to a fast start and show results within ten years or sooner, even if they last longer. Apollo built up to the Moon through interim steps—Mercury and Gemini. There were genetic maps of simpler organisms leading to the human genome. Success breeds political support. Failure is an excuse for cancellation.

Obviously, Nixon, Carter and DOE could not produce enough success in energy independence for this initiative to survive. Whatever support DOE had under Carter for energy independence vanished under Reagan. Reagan's Star Wars project faced the same fate as he gave way to the first Bush. Missile defense continued, but not the grandiose project of Reagan.

Competition. Interestingly, competition helps in creating and maintaining political support, and generating a sense of urgency. This was true in the space race with Apollo, between the U.S. and the Soviet Union, and in the human genome race between the public and private projects. In seeking to commercialize space transportation to the International Space Station, NASA has used competition among firms. However, competition is not always necessary. There are Big Science projects that have succeeded where competition was replaced with cooperation. For example, Clinton helped keep the Space Station going by adapting the goal from competition with the Soviet Union (Reagan's rationale) to cooperation with Russia after the Cold War ended. It became a symbol of post-Cold War cooperation (and a covert way to aide the new and shaky Russian regime).

Experienced executive leadership. Absent James Webb, it is unlikely NASA could have gotten to the Moon in 1969. The ideal executive for a large-scale science and technology project is one who is both an astute manager (inside role) and a savvy politician (outside role). Lacking such qualities, a project usually has troubles. The leader has to be an institutional builder—and usually a change agent on a large scale. And he/she has to think increasingly across agency lines to organizational systems. The leader must be an able advocate for the project. Sometimes the qualities it takes to start a project are different from those to maintain it. That was surely true of the Genome Project. The charismatic James Watson got it underway; the steady and managerially competent Francis Collins implemented it. At the same time, stability in executive leadership may be essential for projects that last over different Presidential terms. Dan Goldin of NASA set a record for longevity, serving under Bush, Clinton, and Bush 2. That longevity helped him get the International Space Station up and occupied.

Conclusions

In conclusion, there are many factors that contribute to Big Science success and failure. Goals, agency capacity, organizational systems, political support, and executive leadership are all essential.

If the next President needs a candidate for a Big Science effort, I would vote for climate/energy. This is the biggest problem today for which science and technology is relevant. Other Presidents have sought energy independence and generally failed. Today, climate change creates a different driver for change in energy technology and one likely to be increasingly compelling for the U.S. and world. True, the problem goes beyond science and technology to many other policy tools—such as regulation, fuel efficiency, and cap and trade. But science and technology is a substantial part of the mix of responses needed.

Can government lead in climate/energy? The "solutions" reach across agencies, public-private sectors and nations. Whoever is President could shy away from such a monumental challenge. But why run for President if you don't want an opportunity to deal with the biggest issues, and thus make history.

INFORMATION TECHNOLOGY AND TRANSPARENCY:

Mr. President/Mr. Speaker Here Is Your IT And Transparency Agenda

By Alan Balutis, Gary D. Bass, Daniel Chenok, Frank Reeder and Alan Shark

In the aftermath of September 11, 2001, we heard again and again that our government needed to be better managed. "Everything has changed" was the constant refrain—11 years ago. Fortunately, now there is a unique convergence between current challenges, the need for government leaders to act in a fundamentally different way, a generational shift in executive ranks, and powerful new collaborative technologies. Here are some of the changes that await our next commander in chief and the leaders of the incoming Congress:

Human Resources

The Chinese write the word "crisis" with two characters, one of which means "danger" and the other "opportunity." The pending workforce crisis (or as some refer to it, "the retirement tsunami") also can be viewed as a tremendous opportunity to reshape the federal government, flatten hierarchies, remake the way government and citizens interact and change the culture of the bureaucracy.

Changing Workplace

Consider how the world has changed in the last thirty years. Then people came to work at a central office, the major role of the U.S. General Services Administration (GSA) was to manage or build the multitude of federal buildings and offices to house all those workers and telework was largely unknown. Contrast that with today and what the Gartner Group terms "Future Worker 2015." Personal computers and cell phones are ubiquitous, telework is routine and business partners are as likely to be on different continents as in different cities.

Changing Workforce

The Federal Chief Information Officers Council (CIOC) recently completed a study entitled "Net Generation: Preparing for Change in the Federal Technology Workforce." Discussing this new generation of federal employees, the report said:

"As a generation, they are over 80 million strong, larger in fact than the Baby Boomer generation. They cannot be ignored as the major source of talent to recruit, develop and retain over the next decades. Additionally, there is much to admire about this generation. They are ambitious and innovative, enjoy teamwork, and understand technology."

Changing Technology

One can argue that Web 2.0 technologies have ushered in a new era of rapidly expanding content and information sharing capabilities. And, over time, they will dramatically change the way organizations work internally and how they interact with their external citizen and customer base. A number of departments and agencies are increasing their use of Web 2.0 social media technologies for both internal and external applications. Collaborative tools can now be considered mainstream.

The federal government will be undergoing tremendous change on many levels over the next several years. Any one of the changes listed above would be a major driver for government, but their convergence creates a perfect management storm for our nation today and an opportunity for the next President, partnering with the new Congress, to dramatically reshape the bureaucracy by leveraging IT to forge a 21st century government. To do so, we have made the following recommendations:

- Issue a Statement of Principles and an Action Plan for implementing An Enhanced Digital Government Agenda;
- Foster a Dynamic Citizen Engagement program;
- Reorganize the Office of the Chief Information Officer;
- Improve IT Project Management;
- Rebuild trust in government through greater transparency; and
- Improve information security while ensuring personal privacy.

MEMO 1: AN ENHANCED DIGITAL GOVERNMENT AGENDA

From: ***Alan Balutis, Gary D. Bass, Daniel Chenok, Frank Reeder and Alan Shark***

The "Great Ideas Hunt," an initiative the General Services Administration launched in May to help develop cost saving ideas, as well as the annual White House call for employee ideas to incorporate in the President' budget submission, characterize innovation as "rounding up the usual suspects"—reviewing and cancelling newspaper and magazine subscriptions, printing on both sides, putting government publications online, getting rid of paper checks, and so on. A plan to go agency by agency, publication by publication, subscription by subscription, across the vast array of government and its more than two million employees will not transform the way the government does business. We need a statement of principles and an action plan for implementing digital government. The following steps are a start (but only a start) for how the government can move beyond the Digital Strategy released earlier this year:

- The primary manner in which client services could be improved is through single points of access to multiple sources of service, a coherent whole-of-enterprise vision of client services, electronic delivery of services and public kiosks, and one-stop shops and agency-to-agency cooperation;

- All services that can be provided digitally should be. However, agencies should prepare a universal service plan to indicate how federal services will remain available to those who cannot communicate digitally. Technology can provide some solutions (wireless devices, cable television, over the phone, and so on);

- The availability of funding—and flexibility in the ability to reprogram funds—is critical if we are to achieve digital government. Increase funding for such initiatives and allow greater reprogramming authority to support new projects;

- Use electronic funds transfer in all monetary transactions;

- Use electronic checks;

- Issue government benefits through electronic benefits transfer;

- Expand federal smart card applications; ensure they are interoperable with private sector applications;

- Focus on intergovernmental (as opposed to federal only) solutions; and

- Support the equal access requirements of Section 508, the Rehabilitation Act Amendments of 1998, which require access to electronic and information technology provided by the federal government.

There is no reason the government cannot operate with as much speed, responsiveness and resiliency as the private sector. In fact, there is no reason government should not be the leader when it comes to technology adoption and service delivery. Of course, a digital strategy and agenda is about more than IT and electronic transactions. It is also a plan to rethink and reform the way the government does business. Once agencies have implemented these recommendations, they should move on to the next step – seriously rethinking and reorganizing their filed office, delivery systems, human resources strategies and plans, budget requirements, and so on. Once information and online transactions become central to government service delivery and business processes, serious reorganization and restructuring must be a mandate.

MEMO 2: CITIZEN ENGAGEMENT

From: ***Alan Balutis, Gary D. Bass, Daniel Chenok, Frank Reeder and Alan Shark***

The President and Congress should continue and build upon previous efforts in creating new and innovative ways to use technology to further citizen engagement efforts. While transparency may be a tool to help citizen engagement, it alone does not create the multi-dimensional communications channel needed for engagement. Similarly e-government – using the Internet to improve management and service delivery – does not amount to citizen engagement. Given the explosive growth of mobile devices as well as Internet penetration, there is enormous potential to transform the relationship of governments to the public.

The following represent just some steps and initiatives to foster realistic and dynamic citizen engagement.

1. **Create a new Office for Citizen Engagement Coordination.** There needs to be a central coordination body that works to manage citizen engagement initiatives among agencies and commissions. The Office would also work with public interest groups to better promote the need for improved citizen involvement.

2. **Continue Presidential Directives on Trusted Identities.** For citizen engagement to truly work, government and citizens alike must know that postings are from the people who they say they are. Certifying forms of trusted identities is critical to citizen engagement initiatives.

3. **Develop Clear Guidelines for Agency Online Participation Activities.** Agencies should be asked to document the number and type of online consultation they already conduct.

4. **Continue Experimenting and Fine Tuning** Challenge.Gov Challenge.gov was created to seek comments and ideas from the public on various issues. The results to date appear mixed. The site should be re-vamped and made more user-friendly with interactive issues, and buckets where citizens can weigh in and offer advice.

5. **Utilize GIS Postings.** The use of GIS mapping and sharing would be a positive addition to engage citizens. With over 40 percent of our citizens using "smart phones and mobile devices" picture posting and information posting is an excellent tool to encourage citizen engagement, as was nicely demonstrated by recovery.gov.

6. **Experiment with Ad-Hoc Communities.** Citizen engagement initiatives should be structured so they can be meaningfully unstructured. In other words the Federal government should establish a "Rapid Ad Hoc Response System" where mechanisms can be created almost instantly in times of crisis and also in times when a certain issue surfaces that could benefit from citizen engagement techniques.

7. **Promote Collective Intelligence.** Similar to Ad-hoc Communities, Collective Intelligence is a concept that identifies experts or opinion leaders in a particular field or area of expertise and can be called upon to help solve specific challenges and problems.

8. **Utilize Wikis.** Wikis can be useful mechanism for building knowledge, sharing ideas and engaging informed citizens.

9. **Ensure that Agency Staff have Adequate Skills to Support Online Participation/Promote Crowdsourcing.** Leaders can gain valuable input to the development of policies and priorities by seeking broad input. This can also increase citizen understanding and support for government action. Agencies should assess the training status of their staff that is responsible for conducting public participation activities. Public participation training should be mandated across the federal workforce and include various levels/formats to meet the needs of new hires, middle managers and SES employees.

MEMO 3: REORGANIZING THE OFFICE OF THE CIO

From: ***Alan Balutis, Gary D. Bass, Daniel Chenok, Frank Reeder and Alan Shark***

The issue is not really or solely the role of the CIO, but more the lack of continuous management improvement across government; that management gap generally involves IT because our government is information intensive. There is a constant need to align budgets, technology, people, and acquisitions to achieve program goals, thus a holistic management approach. Continuity in senior management leadership is essential to ensure the agency mission is executed successfully with measurable improvement to both mission and operational performance. That includes introducing new business processes, modern financial and business systems and other technology enabled advances.

We recommend that this be done by creating a Chief Management Officer (CMO) within all major departments and agencies, to serve a fixed year term akin to that of the Controller-General, the head of the Government Accountability Office. All management and administrative positions should report to the CMO—finance, budget, IT, acquisitions, human resources, information security, the chief performance officer, the assistant secretary for administration, and so on—and all these positions should be filled from career SES ranks. Let's focus here on the role of the Chief Information Officer (CIO). Each CIO will report directly to the CMO and will assume five functions:

1. Strategic use of information and technology, with primary responsibility for identifying leading practices that utilize IT to improve mission performance;

2. Management and maintenance of the IT and information infrastructure;

3. Identification, deployment, management, measurement, and (if applicable) scaling new technologies, applications, and data;

4. Management of the Agency Transformation Fund, a proportion of the agency IT budget which is set aside for new starts; and

5. Information security.

Both the Chief Technology Officer and the Chief Information Security Officer should report to the CIO.

MEMO 4: IMPROVING IT PROJECT MANAGEMENT

From: ***Alan Balutis, Gary D. Bass, Daniel Chenok, Frank Reeder and Alan Shark***

Major business transformations in the federal government are often treated merely as an IT initiative, as opposed to the complex organizational change management challenge they actually are. But the reality is that large IT projects invariably involve significant changes to business processes but oftentimes lack organizational resolve, dedicated political-level sponsorship, or adequate project oversight. Here are some ideas within governance, planning, and procurement to integrate the whole organization into each project:

Governance

- The Deputy Secretary's group (hereafter referred to as the President's Management Council or PMC) should determine the government's capacity for large IT-driven business transformations and govern the number and size of concurrent projects within an agency and across government accordingly.
- The sponsoring organization should commit and hold accountable senior executive leaders for the duration of the project.
- Project leadership should shorten project approval cycle times for incremental and low-risk projects.
- The Office of the Chief Information Officer should continue to strengthen overall project reporting processes to provide the PMC with an effective means to assess the progress, timeframe and risk profile of ongoing projects quickly.
- The PMC and the CIO should ensure project post-mortems are a regular part of project oversight.
- The PMC should establish an Independent Advisory Committee (IAC) for IT to provide expert and independent advice on the issue of large IT transformations.

Planning

- The PMC should take a Portfolio Management approach to major IT investment and management.
- Project sponsors should invest a greater percentage of the project budget than they now do in up-front planning to ensure more robust business and project plans.
- The PMC and the CIO Council should establish and formalize a gateway review process for project approvals and funding.

- The Gateway Project Review Process is a series of short, focused, independent peer reviews at key stages of a program or project. The reviews are undertaken in partnership with a project team and all stakeholders. They are designed to highlight risks that, if not addressed, would threaten the successful delivery of the project, though the reviews are not audits. Passing through a gateway means that the project is ready to progress to the next stage of development or implementation.

Procurement

- Project sponsors and leads should prepare more thoroughly for procurement and begin projects only when a clear business case has been developed.
- Procurements should incentivize the achievement of strategic goals as the first selection and review criterion, rather than focusing on procedural goals or accomplishments.

Contracts should contain “off-ramps” that give the government the option of terminating the relationship with an underperforming or unsuitable vendor and replacing the vendor with a new one, or stopping the project.

MEMO 5: TRANSPARENCY

From: ***Alan Balutis, Gary D. Bass, Daniel Chenok, Frank Reeder and Alan Shark***

In a period when trust in government is at an all-time low, transparency may be a tool to rebuild that trust. Government transparency may be defined as the public's right to know about actions of its government and power elites as well as access to tools that foster greater participation in democratic actions. Transparency is one element – albeit an essential one – of an open government.

Despite the clear importance of transparency in building a more effective and accountable government, the federal government continues to fall short of the openness we need. While progress has been made, we continue to struggle with the responsibilities of our often longstanding right to know laws, such as the Freedom of Information Act (FOIA). Today's laws and policies on public access are inadequate for today's 24 hour-7 day a week Internet world. Under the Freedom of Information Act, the bedrock law on openness, the burden is on the public to request information (and wait for a response); there are far too many loopholes to allow agencies to withhold information; and the law is designed for the paper world functioning in an electronic era. While FOIA needs some improvements (e.g., reducing backlogs; limiting discretionary exemptions; aligning the Department of Justice's policies and procedures, including litigation strategy, with the President's FOIA policy on openness) that Congress and the President should tackle, there is also a need to radically overhaul transparency policies to fit today's needs.

The President and new Congress can put in place a new open government policy that creates an affirmative obligation for government agencies to proactively disclose information. While some government information must remain secret, the burden to justify withholding information should be a government responsibility, should be set at a high standard, and should be fully disclosed and explained in terms all can understand. Any time the government proceeds to collect information, it should presume that the information will be disclosed in a timely and searchable manner.

To begin this affirmative disclosure model, the next President should immediately issue a new directive to agency heads establishing standards for information that all federal agencies must disclose. This standard would be a floor that agencies would be encouraged to go beyond. At a minimum it should include:

- General information about the agency that helps the public better understand how to contact key agency personnel and types of activities top level employees are engaged in, such as organizational charts, list of employees and how to contact them, logs of visitors meeting with top level officials, and calendars of top level officials;

- Policies guiding agency actions that will help the public better understand how decision-making and operations occur within an agency;

- Unclassified communications and reports prepared by an agency, such as communications to Congress and reports of an agency Inspector General; and

- Other records and data that will help the public hold government agencies accountable, such as logs of requests for records filed under the Freedom of Information Act and information about who is participating in federal advisory committees and what is being done by such committees.

There are other top level policy reforms needed including strengthening disclosure of information about: special interest influences and ethics of those working in government; administrative governance, including rulemakings and paperwork requirements; and federal spending, including tax expenditures. The President also needs to make sure that information withheld from public disclosure warrants secrecy. This includes ensuring the classification process is sharply reduced in scale, duration, and complexity.

Policy changes alone are not enough. Here are four principles that government should follow in using new information technologies to make data available to the public:

- **Make sure the information can be found and is timely and accurate.** If information cannot be found when the public is looking for it, then the agency is not truly being transparent.

- **Data standards are essential.** The development and use of standards for metadata will also be critical to facilitating the retrieval of the right information, especially as release of government data sets increases.

- **Make sure commercial services can be used.** Agencies and government employee should take advantage of the same open, free, commercial services the public uses to communicate and share information, such as Facebook, YouTube, and Twitter.

- **Data must be structured so it can be mashed-up.** With the disclosure of more and more government databases, the demand to link various data increases. Government has responsibility to enable such use of databases by developing a system of common identifiers for companies, locations, industries, activities, etc. to be used across agencies.

At present, disincentives are built into the way government agencies operate. Civil servants need to be given the freedom to disclose information and be rewarded for doing so.

Agency staff, beyond those responsible for implementing FOIA, should also be required to go to periodic trainings on transparency issues so that they are familiar with the public's right to know, as well as the tools they can use to carry out transparency efforts. The mandatory trainings could also result in a certification that signifies a level of understanding in how to disseminate government information. Ultimately, moving towards an open government rests on changing the culture within federal agencies.

MEMO 6: PRIVACY AND SECURITY

From: ***Alan Balutis, Gary D. Bass, Daniel Chenok, Frank Reeder and Alan Shark***

The introduction of information and communications technologies has raised challenges as to how we can protect privacy and security while exploiting the benefits that innovation offers. The Internet has created the global village that was, until recently, merely a figure of speech. But, as recent revelations about misuse of personal data suggest, social networking and other innovative technologies create potential hazards for those who use them. Our growing dependence on these technologies for everything from routine financial transactions to the operation of the power grid potentially makes us more vulnerable to failures in that technology.

While some of the reforms in existing policy may require legislation, much can be done with existing legal authorities to mitigate the risk we assume in using information technology while also reducing the potential unwarranted intrusions upon personal privacy. Some specific, actionable recommendations follow for both security and privacy:

With respect to security:

1. Under the current policy regime, lengthy checklists and outdated guidance cause agencies to waste scarce resources on measures that do little to mitigate risk. There is hard evidence that continuous monitoring, measurement, and mitigation against a defined set of high risks are far more effective in addressing real threats in an environment in which those who seek to do us harm move quickly. Changing Federal Information Security Management Act (FISMA) implementation from a compliance approach that focuses on process rather than outcomes to one of continuous monitoring is the single most important action that leaders can take. We recommend that OMB use the authority provided under the existing statute to encourage this important reform.

   Moreover, the debate on whether and how the government should impose cybersecurity standards on the private sector asks the wrong questions. By modeling best practices, the government can lead by example and develop de facto standards of due diligence that will render these questions moot.

2. The national security and intelligence communities have cybersecurity competencies that are critical to protecting civil systems such as banking and utilities. Those capabilities can and should be used without comprising civil values. We thus recommend revisiting authority structures to reflect the reality of a changing world; namely (1) the critical role in information security for the Department of Homeland Security, which did not exist at the time the underlying statutes and current OMB policies were last revised, and (2) the need to redefine the roles and relationship between national security and non-national security systems, to encourage sharing of cyber information across agencies.

With respect to information privacy, a "Code of Fair Information Practices" first articulated in 1973[1], underpins most privacy laws, including the Privacy Act of 1974. We need a new set of principles for leaders to follow that govern cases where security and privacy conflict in cyberspace, Such principles may include:

- Risk analysis that informs the level of protection, detection, and mitigation– high risk/threat gets more oversight.
- Notice to individuals if their machines are causing a problem.
- Court review for access to electronic records.
- Proper review where cyber protection requires individual surveillance consistent with law.
- Examine content of messages only in cases of imminent threat.
- Privacy-by-design and Privacy-enhancing security technologies should be favored in system development.
- Officials with a privacy interest (e.g., agency CPOs) should be in the room during consideration of actions needed for cyber protection, not after the fact.
- Correct for false positives – destroy information that should not have been tracked via mitigation.
- Audits should be done to ensure accountability.

1 *Records, Computers and Rights of Citizens,* Report of the Secretary's Advisory Committee and Automated Personal Data Systems, Department of Health Education and Welfare, July 1973 [available at http://aspe.hhs.gov/datacncl/1973privacy/tocprefacemembers.htm]

MANAGING LARGE TASK PUBLIC – PRIVATE PARTNERSHIPS

*By Mark Pisano and Rich Callahan**

Action Agenda for Leaders

Fiscal crisis cannot be an excuse for inaction and delay in addressing the problems that face the nation. Leaders must take steps to build infrastructure and rebuild the country so that we can address the needs of our people and their communities and compete in an increasingly complex world. This memo proposes that leadership use new partnerships and ways of doing business as the path to action:

- Create a range of Public Benefit Corporations (PBCs) to bring about investments and business plan development for infrastructure–parks, energy, transportation–and any other public goods investment that can be enhanced by these approaches. PBCs use the authority of government, federal, state and local for their establishment, the tools of the private sector to operate, and are generally administered in a nonprofit format. There is no single model for a PBC, but there is a single operating principle: the use of partnerships and collaboration among sectors with the objective of developing the resources and capacity to address our public needs in an environment of scarcity.

- Establish a Council for Fiscal Sustainability (CFS). Congress should create the nonprofit CFS using the same authorities and provisions as it has in creating the United States National Academies. Membership should include federal departments, public interest organizations at all levels, business, labor and other interests that are necessary to accomplish the objectives of the council. The CFS would make recommendations on how to change the operating procedures of the governmental entities in the intergovernmental system so that new "rules of the game" provide a culture of partnership needed for the problem solving initiatives ahead.

- Create by act of Congress a Risk Assessment and Mitigation Board (RAMB). The RIAMB would provide the capacity to review, assess, identify and mitigate risk of proposed PBCs. The RAMB should include members from the financial, insurance, engineering and governance arenas who are capable of providing the ongoing technical assistance for risk identification and assessment and should be housed in the Council of Fiscal Sustainability to insure transparency and accountability in the use of PBCs.

- Establish by act of Congress an infrastructure banking system using the authority of the Business Development Corporation Act of 1980. The bank would have the authority to provide financial assistance up to 20 percent of the investment portfolio of a PBC, based on the actuarial assessment of the RAMB. In order to avoid a moral hazard scenario to the detriment of the U. S. government, the bank should obtain financing through the market place. Infrastructure Bank assistance would be reserved for PBC startup difficulties and the unexpected. The bank should be capitalized through investments by individuals – that is, institutional investors, including pensions and sovereign wealth funds. The risk management structure of this partnership as Fiscal Policy creates a sound basis for federal equity and debt investments in the Bank and to PBCs. These investments should be scored by OMB in the year of expenditure, rather than up front, as is the current practice. This change in practice would, in effect, create a Capital Investment Program at the federal level.

Investment in our public infrastructure and communities is vital to building a thriving economy. Our country's future rests on the willingness of our leaders to take creative and sustained action to grow our economy. This paper offers several innovative mechanisms to move us into a brighter future.

Context

We face intractable problems and our current management and leadership practices have been unsuccessful in moving us forward. The problems include: financial debt at every level of government; significant and serious backlogs in the infrastructure required to efficiently compete in an increasingly globalized economy; and providing for our own domestic needs and quality of life and security. At the same time there is extremely large amounts of capital, over $1.8 trillion, that is held by private firms that could be attracted to public goods investment if the concerns of risk and impediments to creating an investment pipeline could be addressed. Many have observed that America's greatest strength is the innovative and flexible way that we put organizations within our country together to solve our problems. It is time that we flex what may be our greatest asset: Our ingenuity in putting our organizations together—the people of our public, private, nonprofit sectors—to solve problems.

GAO and other organizations report that all levels of government, even assuming normal economic growth, will experience fiscal shortfalls stretching far into the future for decades to come. The "Memos to Leadership: Intergovernmental Panel" has identified the financial shortfalls in our states and local governments as the invisible crisis in America. News stories have reported that over 700,000 employees (teachers, police, fire and many other public servants) have been laid off in the past two years. The GAO's analysis and forecast for federal, state and local units of government predicts that the reductions this year will continue to grow by tenfold over the next 20 years if current policies continue without change. Numerous reports conclude that unless we undertake major investment programs in our public goods issues of education, infrastructure, energy and health, we will be unable to accelerate growth and alter what promises to be a very bleak future.

Our panel is developing strategies and recommendations, both short and long term, to put the public, private and nonprofit organizations and individuals together differently. We must create new "rules of the game" to foster the synergy, efficiencies, partnerships and innovation that will enable us to forge approaches to address these challenges. Changing the way we do things and capturing the benefits of these partnerships constitutes a new fiscal strategy for the nation.

The panel also observed that the global transformation we are now experiencing is profound with almost 40 percent of the economy coming from the global economy; all levels of government need to be part of a new national partnership to sustain the nation in this new century. Without a national strategy, states and regions and communities will be left to forage in the global economy with a significant competitive disadvantage.

What we recommend is neither new nor untested. There have been a range of related examples of similar initiatives in recent history. The panel noted that we should learn from cases that failed or were deficient and we should draw on successful experiences to illuminate pathways for working differently – and better – at all levels of government.

Problems/Challenges/Opportunities

The convergence of the fiscal, demographic and global stresses creates four sets of challenges for our national leaders:

1. How do we meet current and future needs to build infrastructure to improve our living environment and compete in the global economy, particularly those large-scale investments that have eluded us in the past several decades? How do we provide the programs and services to support the changing public needs in our communities? We must develop new revenues that are derived from the benefits that are generated by users of investments, by gaining from the synergy of bringing together multiple investments and revenue streams, by leveraging existing revenues with these new revenues, and by increased efficiencies in implementation. We must more effectively link the beneficiary of and payer for services.

2. How do we leverage the public management lessons learned in the American Recovery and Reinvestment Act (ARRA), working vertically in the intergovernmental system and horizontally across the private and nonprofit sectors? What does that experience suggest for immediate action by federal, state and local leaders that can facilitate developing new projects and programs in real time, leveraging information technology to accelerate implementation while increasing transparency and accountability?

3. How might we learn and benefit from the successes and failures of public benefit corporations (i.e., partnerships that combine the advantages of each of the sectors)? How do we optimize effective use of these partnerships?

4. How do we accelerate coordination across infrastructure silos to increase development of integrated investments for transit, goods movement, energy grid development, the internet, communication, watershed, open space and hazard mitigation?

Recommendations

Create a range of Public Benefit Corporations (PBCs) to bring about investments in and business plan development for infrastructure – parks, energy, and transportation – and any other public good investment that can be enhanced by these approaches. PBCs use the authority of government, federal, state and local for their establishment, the tools of the private sector to operate, and are generally administered in a nonprofit format. There is no single model for a PBC, but there is a single operating principle: the use of partnerships and collaboration among sectors with the objective of developing the resources and capacity to address our public needs in an environment of scarcity. How can publicly defined objectives be met by using innovation and risk taking of the private sector, whereby risks are identified, managed, mitigated and appropriately shared?

The recommendations are based on the learning experiences of recent experiments and pilot programs. Setbacks, as well as the successes, inform these proposals. The U.S. Enrichment Corporation (USEC), created in 1993 to privatize uranium for civilian use, provides an example of PBC setbacks. In 1998, USEC issued public stock and is today struggling to remain in existence, due in part to lack of transparency and difficulties in assessing risk. More troubling are the mortgage bundling firms, Fanny-Mae, Freddie-Mac (government sponsored enterprises [GSEs]) that created a moral hazard and other risks that prompted the recent financial meltdown. Public policies were established that enabled and encouraged these corporations to operate at risk in the market place. The failure of the housing GSEs illustrates what can go wrong when a private corporation is charged with conflicting missions of achieving public benefits and private profits. The panel examined numerous reports of the best practices that should be followed and the pitfalls that should be avoided in operating PBCs.

There are numerous examples and lessons that can be used in the design and mobilization of the effort to establish PBCs. For example, the Presidio Trust in San Francisco, California was established by Congress in 1996 to achieve financial self-sufficiency for the operation of a large item in the National Park Service's budget. NAPA was asked by Congress in 2004 to make recommendations to the newly created foundation to achieve the objectives of the statute. The key elements of the NAPA Panel's recommendation included the following: ensure that the Board composition reflects the sectors that need to be brought together to achieve the objectives of the statute; provide the leadership for a coordinated and multi-sector implementation; develop a business plan upfront that is consistent with the public mission and goals established through the public policy process; and recognize that transparency and accountability are essential.

Another example is the Alameda Corridor Transportation Authority (ACTA), which was established in 1989 by the cities and ports of Los Angeles and Long Beach in partnership with the UP and BNSF railroads. A business plan was developed to build a $2.1 billion investment program to move goods from the ports and to fund the construction through a container fee paid for by the private sector. A loan from the federal government, which led to the Transportation Infrastructure Investment Act, was awarded and provided assurance of the resources that enabled the project to go to market for this revenue- backed investment.

Decision-Making Principles

The panel examined numerous reports of the best practices that should be followed and the pitfalls that should be avoided in operating PBCs. To get traction on partnerships while minimizing risks, the panel suggested that the decision-making and implementation process follow these principles:

- **Starting Point — outcomes and results** that is, begin with the end in mind, asking what does success look like? Focus on the outcomes that can be achieved from the partnership relationships among sectors and levels of government. Outcomes should be beneficial to society and all people – not specific prescriptions, but rather solutions that generate results

- **Funding — the new normative condition.** Shift from a cost analysis to aligning financing with decision-making up front rather than a post decision-making step. Funding strategies are an integral part of front-end planning.

- **Decision-making — an iterative process** with continued evaluations that bring life cycle costs to the table particularly costs over time. Consider the full range of systems, not just alternatives. Experiment with how to get out of the stovepipes of programs.

- **Criteria for Success — benefits, lifecycle costs and risks** will be the key elements of a new decision-making process that will ensure allocation of risk and investment among the parties.

- **Approach — identify and draw on current practices,** particularly funding, that build on the experimentation within the country. Innovation and doing things differently is not only difficult but discouraged by the current funding processes and the difficulty of assessing risk.

- **Change Analytical Perspectives — move from risk avoidance to risk identification, risk mitigation, and risk management.** Properly assessing risks will be a key challenge for all the sectors and will require different actions and behavior of all the parties.

- **Leadership Challenge — remove hurdles.** Leadership needs to facilitate all the participants in identifying and removing hurdles that create inefficiencies (subtraction) and incentivize actions that increases efficiency (addition)

Opportunities for PBCs

The following are a few potential opportunities for establishing Public Benefit Corporations (PBCs), which could be modeled after ongoing domestic initiatives. These are an illustrative set of possibilities, keeping in mind the fact that additional initiatives are bubbling up wherever needs exist and leadership is willing to experiment. It is hoped that this starter list builds the confidence and understanding needed to expand the initiative.

One, create PBCs that would achieve the multiple outcomes of security, transportation infrastructure development, and environmental mitigation at the port of entries into the United States from Canada and Mexico. There are over 300 ports of entry where people, cars, trucks and trains cross into this country. The transportation infrastructure, security and safety operations are funded from the increasingly limited budgets of federal, state and local entities. The nation is having trouble building needed infrastructure, maintaining security, and dealing with the adverse fiscal effects on border communities. In only a few instances are tolls charged for bridges that enter the country and there are no entry fees for security and infrastructure to come into the country. For example, the City of El Paso and the City of Juarez charge tolls for trucks that operate on the Zaragoza Bridge between the cities. The reverse is true for expenses of infrastructure, security and local affects for leaving the country where fees are commonplace. The State of California granted legislative authority to The San Diego Association of Government in California to form an entity to build a business plan-based port of entry that could be the start of a “North American Borders” initiative.

Two, create Public Benefit Corporations that will achieve multiple objectives of parks, environmental management, conservation and open space using the model of the Presidio Trust. This could be a significant national initiative, especially given the number of parks at all levels of government that are experiencing closures or declining operations. To mobilize this effort a learning laboratory for federal, state and local parks could be launched by the National Park Service and NAPA.

Three, consider use of the Interstate Highway system prism for new integrated investments that could move people, goods, electricity and communications. Currently each infrastructure area (e.g., transportation, energy, communication) operates separately and independently. As a result, investments are not coordinated, failing to take advantage of the efficiency and synergy of an integrated investment program with multiple revenues streams on the Interstate corridors. This integrated approach could also address environmental, jurisdictional and financing obstacles that energy grid development, goods movement and high-speed transportation constantly face. By getting out of the stovepipe of each infrastructure area and by using the assets of each area collectively, we could mitigate or remove these barriers to develop fiscally viable environmental investments in our national infrastructure.

For example, the America 2050 Megaregions in the Southwest contemplates use of the Interstate highway system prism for new integrated investments to move people, goods, electricity and communications. In the Northeast, the Regional Plan Association and the University of Pennsylvania have developed multiple-use strategies for building the High Speed Northeast Corridor. Public Benefit Corporations, using the principles outlined above, will be needed to move these initiatives forward. Putting federal agencies together with state and local partners and involving the private and community interests on a few pilots is the key to such an initiative.

Four, amplify and expand the development of PBCs in communities throughout the country. A number of states have adopted laws enabling the establishment of PBCs, which are building and operating facilities by bringing new resources to the table in partnership with ongoing government programs. The tools and the decision-making principles of the action agenda would enable these initiatives to accelerate and coalesce to achieve more efficient use of scarce resources.

ARRA Management Lessons Applied to PBCs

The largest management experiment in governmental action in recent times is the American Recovery and Reinvestment Act (ARRA) of 2009. The IBM's Center for the Business of Government recently completed an assessment of lessons for mobilizing federal executives to create partnerships, create flexibility in program implementation and improve accountability and transparency. Notable among the lessons for public managers is the experience of bringing together Inspector Generals to monitor the implementation of the Act, a vital element for ensuring transparency and accountability.

The ARRA experiences and lessons in designing networks for performance and accountability suggest the potential value of establishing a Council for Fiscal Sustainability (CFS). Congress should create the nonprofit CFS using the same authorities and provisions as it has in creating the United States National Academies. Membership should include federal departments, state leaders, public interest organizations at all levels, business, labor and other interests that are necessary to accomplish the objectives of the council. The CFS would make recommendations on how to change the operating procedures of the governmental entities in the intergovernmental system so that new "rules of the game" provide an institutional design coupled with a culture of partnerships needed for the problem solving initiatives ahead.

The CFS offers significant potential with these actions among its early priorities:

- Take lessons on flexibility and speed of response from ARRA cases and incorporate these proven practices to become part of the administrative processes of the federal system.

- Accelerate bidding and procurement processes, identify potential federal bottlenecks in contract awards, and develop a mechanism for technology evolution in the public sector that occurs in NASA and military deployment. NAPA and The Aerospace Corporation, a federally funded research and development center, have developed a Memorandum of Agreement to start this process. The new Congress and Administration should support this initiative.

- Develop the integration of practices to work across federal agencies that will be needed to implement coordinated investment programs for bringing together multiple revenue streams.

- Provide a forum for the policy, coordinating and accountability in the development of Public Benefit Corporations and other new governance structures that can undertake these initiatives in the country. The forum is to take the lessons learned from Fannie Mae, Freddie Mac, USEC and others to design appropriate risk sharing and accountability incentives and controls that protect the federal interest while at the same time engaging private initiative and financing. This accountability forum would offer an opportunity for the iterative dialogue that researcher Don Moynihan finds to be essential to developing performance management systems.

- Create real time learning by requiring the Council of Fiscal Sustainability (CFS) to report on the experience of PBCs on a monthly basis. These reports should draw from the successful ARRA Tracking Committee for Accountability (TCA) experience. The TCA used readily available information technology systems that enabled progress to be geographically identified and internet accessible.

Accountability — that is, tracking, reporting and maintaining transparency — was the greatest concern of the panel members and it should be a high priority for the CFS. The IBM Center report noted that systems developed from off-the-shelf tracking systems was one of the most visible and effective innovations. Internet access, based on geographic reporting, will enable all the parties, regardless of governmental level or sector, to be aware of the progress and problems. The social equity implications of these place-based initiatives will need to be tracked as well as incorporated into the institutional learning process. If inequities arise, mitigation strategies will need to be put in place. Real time sharing of information and management action will be essential for the problem-solving and results-achievement of this approach. This system will also be instrumental in developing the consumer or user knowledge so crucial to the financial success of this approach.

Manage Financial Risks of PBCs

There are many different risks associated with these initiatives: technological, environmental, institutional, project delivery and financial. The PBCs are a combination of all sectors and the risk associated with the projects should also be a shared responsibility of all the sectors. Traditionally, we reduce financial risk by collecting all the money for our public sector needs and allocating known resources on a pay-as-you go basis. The Public Benefit Corporation approach relies on future users and markets, which introduces the possibility that revenues may not be sufficient if the initiative is not correctly designed or if the unknown hazards arise. While the market is the vehicle for making the ultimate financial decision, a process that helps identify the range of risks and develops mitigation strategies throughout the decision-making and implementation phases will greatly assist. The international community shares risk by requiring the private sector to bear the risks of developing and building the project, while the public sector participates in the risks of financing the project with demand or utilization assurances. We would do well to learn from their experience, including what has worked and the extent to which risks of moral hazards are introduced by their approach.

An additional recommendation is to create a Risk Assessment and Mitigation Board (RAMB). The RAMB provides the capacity to review, assess, identify, and mitigate risk of each proposed PBC. The RAMB should have members from the financial, insurance, engineering and governance areas capable of providing the ongoing technical assistance for risk identification and assessment and should be housed in the Council of Fiscal Sustainability to insure transparency and accountability in the use of PBCs.

While risk mitigation can be a part of the business plan development, a financial backstop or assist mechanism will be needed given the international experience as well as domestic experiences of the Alameda Corridor and other new investments. The United States has experimented with an approach in the Transportation Infrastructure Financing Innovation Act (TIFIA), which provides advantaged financing. The original intent of the program to be a subordinated loan by the federal government was never fully realized. To assist in dealing with the demand risks, an Infrastructure Banking System using the authority of the Business Development Corporation Act of 1980 should be established by Congress with the authority to provide financial assistance to a PBC either as equity participation or as added debt in a financial restructuring to be repaid by the project. To avoid a moral hazard to the detriment of the U.S. government the infrastructure bank will use the actuarial assessment of the RAMB in making decisions and the banks participation will be limited to 20 percent of the investment portfolio. The bank would be capitalized by investments by individuals – that is, institutional investors, including pensions and sovereign wealth funds. The risk management structure of this Partnership as Fiscal Policy creates a sound basis for federal equity and debt investments in the Bank and to PBCs. These investments should be scored by OMB in the year of expenditure, rather than up front, as is the current practice. This change in practice would, in effect, create a Capital Investment Program at the federal level.

Conclusion

The future of our country rides on the will of national leaders to take decisive action. Given the bleak long-range fiscal picture, those who are being affected most are those that can least afford the economic impact. Good public administration finds ways to accomplish our goals by getting the organizations in our society to work together to achieve these goals even in the face of dwindling public financing.

We have much to discover about new rules of engagement among the sectors and between levels of government. The principles identified in this paper and the pilot projects we recommend and others that will emerge provide an opportunity to experiment and learn over time to begin to deal with our public goods issues. This is not a solution for every public goods problem. But the learning-by-doing approach could be useful in developing the capacity to address the needs of an increasingly stressed public sector at all levels of government. We must change the way we put ourselves together to meet our public sector needs for all and not further increase the fiscal stress of governmental actors. While the focus of the action agenda is our built environment, the approach could be extended in the future to health care and education to develop partnerships as funding strategy to address the fiscal dilemmas we face in these arenas.

The changes that we recommend are institutional changes coupled with shifts in organizational cultural among the sectors in our country. It will take time. This is not a short run undertaking, far from it. As a first step, we propose a set of demonstration projects that can be launched by the next administration to show that we can satisfy societal needs by working together differently.

* *This memo was developed by the Memo to Leadership Panel consisting of Mark Pisano, chair, Alan Abramson, Jack Basso, Rich Callahan, Tom Downs, and Wendy Haynes with input from the Federal Systems Panel. The authors served as reporters of the Panel's work.*

REORGANIZATION OF GOVERNMENT

By Allen Lomax

Reducing the federal deficit and improving the efficiency of government programs has increased attention on reorganizing federal agencies and programs as a mechanism to achieve these desired results. While there is merit in reorganizing the federal government, it may not achieve the desired results unless done properly. Even then, reorganizations may have limited impact on helping to reduce the deficit or immediately improving the efficiency of government programs.

There has been significant expansion of federal government agencies' programs over the last several decades. This expansion has been due to actions by the Executive and Legislative branches of government to address new or reoccurring problems with new or expanded programs. As a result of the new or expanded programs, there has been mission creep among federal agencies and the creation of overlapping, duplicative and fragmented federal programs.

Eliminating or reducing overlapping, duplicative and fragmented programs is an important task for the next Administration and Congress. One important step may be to structurally reorganize these programs by consolidating them. This will require the expenditure of political capital by both the President and Congress. It will also require them to work closely together, reach consensus on the reorganization goals, and understand that savings and program efficiencies may not be immediate. They both need to use the important principles and guidelines for structural reorganizations. Additionally, the President and Congress should be careful not to replicate the design and process deficiencies that occurred in designing the Department of Homeland Security.

Another important step may be to increase the development of interagency councils to coordinate cross-cutting programs. This step has been called a "virtual" reorganization and can be used to supplement a more traditional reorganization. Creating interagency councils though will not be sufficient. The President and Congress should organize them around broad, agreed upon national goals and use other important tools to ensure accountability and transparency of such councils. Also, one agency head should be designated to lead each council and provided with the appropriate authority to ensure that multi-programs work together toward for achieving the broad national goals.

The next Administration and the Congress should use both steps to help eliminate or reduce the overlap, duplication and fragmentation among federal programs. This memo makes several recommendations regarding the structural and virtual reorganization of the federal government.

MEMO 1: REORGNIZING THE FEDERAL GOVERNMENT

From: *Allen Lomax*

The need to reduce the federal deficit and improve the efficiency of government programs has increased attention on reorganizing federal agencies and programs as a mechanism to achieve these goals. Additionally, there is sustained interest in changing the role, and reducing the size, of the federal government. The key question of any desire to reorganize government is how to better design the federal government to meet the challenges of the 21st century.

Over the last several decades, the size of the federal government has remained relatively constant while the population it serves, and the programs enacted to provide this service, has increased dramatically. The structure of the federal government has not kept pace with these developments. Many programs cross agency boundaries, yet we have lost ground with respect to our capacity to address interagency and intergovernmental issues that are posed by most national initiatives today. This increase of programs has been due to actions by the executive and legislative branches to address new or recurring problems with new or expanded programs. Another method to address problems has been to reorganize existing agencies and programs and expand their authorities (e.g., the creation of the Department of Homeland Security).

The increase in the number of agencies and programs over the last many years has created at least two significant governance problems. First, mission creep among federal agencies. Second, many national issues are being addressed by multiple agencies and programs responsible for addressing a portion of the larger problem they were created to address. Thus, we are now faced with the growing problems of overlapping, duplicative and fragmented programs. A 2011 report by the Government Accountability Office (GAO) identified 34 areas where programs were overlapping, duplicative or fragmented. For example, it identified 82 teacher quality programs administered by 10 agencies; 80 economic development programs administered by 4 agencies; 56 financial literacy programs administered by more than 20 agencies; and 47 employment and training programs administered by 3 agencies. This situation of overlapping, duplicative and fragmented programs has, for the most part, produced ineffective means of program delivery and at times, created competing goals and objectives as well as an inefficient use of limited federal funds.

Eliminating or Reducing Federal Programs

Eliminating or reducing overlapping, duplicative and fragmented programs is an important task for the next Administration and Congress. One important step may be to reorganize these programs by consolidating them. Some of the consolidations can occur within existing departments and agencies while others can occur through combining existing agencies and their programs.

However, achieving structural reorganizations require the expenditure of political capital by both the President and Congress. It will require the President's administration and Congress to work closely together and to mutually agree on the goals of any reorganization. However, efforts by the President and Congress to work closely together on any issue in recent years have proven to be elusive. Significant changes will need to be made in their working relationship before any reorganization effort starts.

Also, the President and the Office of Management and Budget (OMB) will need to clearly explain in practical terms how any structural reorganization will actually improve the efficiency and effectiveness of the agencies and their programs.

Additionally, the President's administration must be willing to work with Congress to address key issues and concerns it has regarding any structural reorganization. A necessary element in this working relationship will be the willingness of the Administration to not only discussing these issues and concerns with Congress but sharing information regarding how decisions were made initially designing the reorganization.

Further, the President and Congress will need to understand that any structural reorganization will most likely have little to no immediate impact on dollar savings. It will take years to achieve any potential dollar savings and reduce the budgets of the affected agencies and their programs.

Numerous organizations and organizational experts have developed principals or guidelines for future federal government structural reorganizations. While these principals and guidelines vary in their scope, there are some common elements:

- Clearly identify the problem(s) reorganization will address.
- Use facts regarding the problems, not just opinions, in designing reorganization.
- Develop clear, identifiable and specific goals for reorganization.
- Assess the pros and cons of proposed reorganization.
- Strive to create a consensus for reorganization among the Congress, federal employees, the public, state and local government, and the private sector.
- Continuously consult with Congress on reorganization plans and be willing to accept advice and counsel from Congress.
- Create two-way communication with affected federal employees, the public, state and local government, and the private sector, including the opposition.
- Seek out suggestions, ideas and support from affected employees regarding both planning and implementing reorganization.
- Develop reorganization implementation plans for both the short-term and long-term.
- Don't forget to address the "soft" organizational issues such as organizational culture and tradition.

These common elements provide a good framework for designing and implementing reorganizations. However, there are several drawbacks from doing structural reorganizations. The first drawback is that any structural reorganization takes a long time to fully implement. Complete implementation of such reorganizations often takes 3 to 5 years, though small ones can move more rapidly.

The second drawback is that reorganizations typically cost more money upfront to implement. Thus, they do not immediately reduced funding related to the affect agencies and their programs but instead result in greater funding during the initial stages of implementing reorganizations. This is because additional costs will incur due to the need to relocate employees, consolidate information systems, change payroll systems, move equipment and furniture, etc.

The third drawback is that the initial phases of the implementation planning and implementing reorganizations may cause a temporary decrease in programs' efficiencies because there will be a lot of concern and uncertainty among affected employees about changes to their current positions and reporting levels. Also, they will be concerned about any physical changes in their locations (i.e., will they need to move to another building or another part of town from where they currently work).

If the next Administration decides to develop a broad structural reorganization of the federal government, it should establish a commission to consider and vet reorganization proposals. GAO and others view the first Hoover Commission as "the most successful of government restructuring efforts." The key to the success of the first Hoover Commission, widely recognized by many, was that it was bipartisan and its membership included members of the President's administration, members of both houses of Congress, and people from outside of government including members representing the public. The Ash Council's reorganization proposals in 1969-1970 also provide important lessons from its mixed success in structurally reorganizing the federal government.

It is important to note that the Hoover Commission took two years to complete its work—from 1947 to 1949. So, once again structural reorganizations, even the development and approval of proposals, take a long time. Both the next Administration and Congress must be committed to the long term nature of the process and be willing to accept or revise and then act upon the commission's proposals. Lately, this has not been the typical result of the work of commissions involving other issues.

Recent Lessons from the Creation of the Department of Homeland Security

The creation of the Department of Homeland Security (DHS) provides important lessons that the next Administration and Congress should consider. The creation of DHS focused on the idea of addressing some of the organizational failures that resulted in 9-11. The primary failure was the lack of coordination and information sharing (i.e., "connecting the dots") among agencies and programs responsible for ensuring the security of the United States from terrorism. So, 22 federal agencies that had some terrorism security responsibilities, along with other responsibilities were brought together under a newly formed department.

While the degree of success of the creation of DHS varies, there are some key lessons learned from the reorganizations. These lessons learned include:

a) **Reorganizations do not always resolve all coordination issues:** Not all of the agencies whose missions included homeland security were transferred to DHS. Ensuring effective coordination among agencies with similar mission not included in a reorganization is important.

b) **Don't dilute other important missions:** The 22 agencies transferred to the new department had other missions in addition to homeland security. There was a need to ensure that these other missions continued and not made subordinate to their homeland security missions. This did not always happen with the creation of DHS.

c) Consult with key stakeholders: Little in the way of consultation with key stakeholders occurred in the design of the DHS reorganization. As a result, there was almost no emphasis in the discussion about the reorganization as to the impact of its design on these stakeholders and how they were supposed to support the new department's work.

d) Congress needs complete and accurate information: At the start of the legislative process creating DHS the exact figure of the number of employees to be transferred to the new department was unknown. In the early stages, the number of employees who would be transferred to DHS ranged from 170,000 to 220,000. It makes it difficult for Congress to know all the human capital issues that need to be addressed when dealing with a margin of +/- 50,000 people.

e) Legacy systems and processes need to be considered: All of the agencies transferred to the new department had their own personnel systems, information systems, payroll systems, procurement regulations, etc. However, these issues received minimal attention during the legislative process.

f) Don't forget the field offices: All of the agencies being transferred to DHS had field offices, with people and facilities, scattered throughout the United States. However, there was little discussion regarding the impact the reorganization would have on these offices. Key questions as where all the offices were located, whether some could be eliminated or merged, and the critical interagency and intergovernmental roles of these field offices were not discussed. As a result, many these key questions are still unresolved 10 years after DHS was created.

The Value of Virtual Reorganizations

Another important step may be to increase the development of interagency councils to coordinate cross-cutting programs. This step has been called a "virtual" reorganization and can be used to supplement a more traditional reorganization. One major advantage of a "virtual" reorganization is that it can be implemented fairly quickly through (1) the creation of interagency councils and (2) the establishment of broad national goals.

The establishment of interagency councils focused on broad national goals can be an important mechanism for bringing overlapping, duplicative and fragmented programs together under a specific framework. The first step in the process is for the next Administration to consult and reach consensus with Congress on the specific broad national goals to be addressed. The interests of both the Administration and Congress must be achieved in this process. This concept closely aligns with two recommendations contained in the Memo to National Leaders—Strengthening the Federal Budget Process. Specifically, the memo titled, "Budgeting Strategically", recommends that the next Administration, in consultation with the leaders of the next Congress, (1) should identify several high priority national objectives that will be the focus of strategic budget reviews and (2) these reviews should rigorously examine the full portfolio of current federal programs cutting across multiple agencies and departments.

Once consensus is reached on the broad national goals, the President should require the creation of interagency councils focused on these broad national goals and designate on agency head to chair each council. The councils can use the GPRA Modernization Act of 2010's requirement for the development of cross-cutting federal priority goals as a tool to help identify and reduce program overlap, duplication, and fragmentation and improve coordination among similar programs.

However, the creation of interagency councils focused on broad national goals who use cross-cutting federal priority goals may not be sufficient. Additional tools may be necessary to adequately implement virtual reorganizations. One such tool that should be used is national strategies. Over the last 10 years, the federal government has used national strategies to try to focus on significant issues and bring a variety of organizations together to work collaboratively on these issues. Some of these include the National Strategy for Homeland Security, National Strategy for Combating Terrorism, National Strategy to Secure Cyberspace, National Strategy for Financial Literacy, and the National Strategy for Pandemic Influenza.

The use of national strategies can serve as an important organizing method for multiple agencies working on broad national goals. In a 2004 report, GAO identified the following six desirable characteristics for national strategies:

1. **Statement of purpose, scope and methodology:** addresses why the strategy was produced, the scope of its coverage, and the process by which it was developed.

2. **Problem definition and risk assessment:** addresses the particular national problems and threats the strategy is directed towards.

3. **Goals, subordinate objectives, activities, and performance measures:** addresses what the strategy is trying to achieve and the steps to achieve those results, as well as the priorities, milestones and performance measures to gauge results.

4. **Resources, investments and risk management:** addresses what the strategy will cost, the sources and types of resources and investments needed, and where the resources and investments should be targeted by balancing risk reduction and costs.

5. **Organizational roles, responsibilities and coordination:** addresses which organizations will be implementing the strategy, what their roles will be compared to others, and mechanisms for them to coordinate their efforts.

6. **Integration and implementation:** addresses how a national strategy relates to other strategies' goals, objectives, and activities, and to subordinate levels of government and their plans to implement the strategy.

Accountability and transparency are vital for helping to ensure the successful implementation of a virtual reorganization. One way to do this is for the interagency councils annually reporting to OMB and the Performance Improvement Council on their performance. Also, providing the interagency councils with the authority to make recommendations to OMB on the budget requests of related program would enhance their ability for ensuring that funds are used efficiently and effectively to address the broad national goals and among related programs.

One existing interagency council that could be used as an example for these new councils created through a virtual reorganization is the Interagency Council on Homelessness. This council was created through legislation in 1987 (the McKinney-Vento Homeless Assistance Act) and its authority and responsibilities were strengthen through reauthorization legislation in 2009 (the Homeless Emergency Assistance and Rapid Transition to Housing Act). Recently, as a result of the 2009 legislation, the Council was required, among other things, to develop a federal strategic plan to end homelessness, to encourage the creation of State Interagency Councils on Homelessness, and annually obtain from federal agencies the resources that homeless persons may be eligible and the agencies' identification of improvements to ensure access. However, the Interagency Council on Homelessness also has some weaknesses and thus, is not as strong as a model as those recommended in this memo. For example, department or agency leaders that chair the Council rotate among its members and are selected by its members as opposed to being designated by the President. Also, the original legislation created an executive director to mange the day-to-day operations of the Council with limited clear direct line of authority between the executive director and the Council Chair.

As noted in the example above, an authority gap may still exist preventing the interagency councils to successfully fulfill their responsibilities. This gap involves who has the authority for ensuring that all of the affected agencies and their programs are working together. Many attempts have been made in the past to address this authority gap—National Security Council committees, "Czars" and lead agencies—but they have proven insufficient. Prior attempts to manage multi-departmental programs run into the problem of effective management as too many cooks attempt to produce a coherent menu. One model that exists that should be considered to address this issue is the "Chief of Mission" authority delegated to ambassadors serving in the country of assignment. With that authority, which is an empowered chairman, the ambassador leads the so-called Country Team which is the only formally instituted multi-agency entity in the US government below the White House. By Congress authorizing the President, through legislation, to delegate to leaders of interagency councils (who should be an agency head) this "Chief of Mission" or for this purposes "Chief of National Goal" authority it will provide enhance accountability for the councils' work.

Congress' Structure Often Reflects the Executive Branch Structure

Much like the overlapping, duplicative and fragmented programs, Congress and its current committee structure reflects the nature of these programs. These multiple committees and subcommittees request thousands of reports and hold hundreds of hearings a year regarding the agencies and their programs under their jurisdictions. Many of these reports and hearings provide fragmented information on many broad national issues and thus, it is difficult for Congress to obtain a complete understanding on the results of agencies' programs and to adequately identify the best congressional solutions.

Going Forward

The use of structural and virtual reorganizations should not be viewed as a choice of one over the other. Both types of reorganizations should be used to make the delivery of federal programs more efficient and effective and produce better results for the American people. The next Administration and Congress should use both steps to help eliminate or reduce the overlap, duplication and fragmentation among federal programs and agencies. One of the most important factors regarding both types of reorganizations is that the next Administration and Congress need to work more closely together to determine the value of each type of reorganization, reach consensus on reorganization goals and broad national goals, and focus more on results and less on just reducing the size of government.

Recommended Actions

1. The next Administration should determine the need for structural reorganization of federal agencies and if some agencies need to be reorganized, the Administration should draft a bill, and submit it to Congress, to establish a Reorganization Commission based on the success factors of the first Hoover Commission.

2. The next Administration and Congress should establish a mechanism that requires the Congress to consider and vote on the Commission's reorganization proposals.

3. The next Administration should work with Congress to establish broad national goals that the government should address. These goals should focus on current, but more importantly, future issues the United States faces or may face.

4. Using GAO's reports on overlapping, duplicative and fragmented programs, the next Administration, with the advice and counsel of Congress, should establish interagency councils focused around broad national goals.

a. Once the interagency councils are established, the President should designate an agency head as leader of each council.

b. The next Administration and Congress should work together to explore legislation providing "Chief of National Goal" authority so that it may be delegated to these council leaders.

c. The interagency councils should be directed by the President to develop a national strategy appropriate to the broad national goal they are to address. These national strategies should be developed in consultation with the leaders of the appropriate congressional committees.

d. The interagency councils should annually report to OMB and the Performance Improvement Council on their performance regarding implementing the broad national goals and the national strategy they are responsible for.

e. The interagency councils should be provided the authority to make recommendations to OMB on the budget requests of their members' programs. This authority would help ensure that the interagency councils focus on the efficient and effective use of the funds for these programs and their efforts to address broad national goals.

5. Congress should assess how it is organized and operates. It should establish a bipartisan committee to assess its committee and subcommittee structure and make recommendations for eliminating or merging some committees or subcommittees.

6. The leadership of the next Congress should require that congressional committees—both oversight and appropriations committees— hold joint hearings focused on the progress of the government to achieve broad national goals and the results of the programs related to these goals. More specifically, Congress should hold joint hearings on the progress made regarding the national strategies.

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