

December 14, 1992

HOW TO CUT THE FEDERAL BUREAUCRACY

We cannot put people first and create jobs and economic growth without a revolution in government. We must take away power from the entrenched bureaucracies and special interests that dominate Washington....

I will reduce the White House Staff by 25 percent and challenge Congress to do the same.... [I will] eliminate 100,000 unnecessary positions in the bureaucracy. I will cut 100,000 federal government positions through attrition.... I will require federal managers and workers to achieve a 3 percent across-the-board administrative savings in every federal agency.

Bill Clinton
*Putting People First:
A National Economic Strategy for America.*

EXECUTIVE SUMMARY

There are few campaign promises that will become due earlier than your pledge to cut 100,000 federal government employee positions. Your commitment to reform—or your lack of it—will be obvious to the American people from the very beginning.

You have apparently modelled your transition and initial legislative strategy on the early days of the Reagan Administration. You would be wise to examine that Administration's strategy on reducing the size of the federal bureaucracy, too, for it offers a tested means to achieve your campaign pledges. That experience, and the lessons from other Administrations, suggests a ten-point action plan for achieving your objectives:

Action 1: Institute on Inauguration Day a total freeze on federal hiring (except political appointments), accompanied by a 3 percent across-the-board administrative cut. This is the kind of blunt instrument approach needed if your goal is to be accomplished. Because it allows no exceptions, bureaucratic gaming cannot frustrate the achievement of the bulk of your personnel reduction target, allowing appropriate adjustments to be made later, after most of the targeted savings have been accumulated at the beginning.

Action 2: Demand that Congress eliminate minimum staffing levels in all departments and agencies. A reduction program cannot be effective if large areas of personnel are excepted from its control.

Action 3: In the second phase of personnel reductions, institute a modified freeze. This more flexible hiring freeze should be planned for an unnamed date at least six months in the future, and administered by the Office of Personnel Management. This will allow continued reductions but ones managed in accord with the efficient use of personnel resources.

Action 4: During the modified freeze, reform the Reduction-in-Force (RIF) regulations to give more weight to performance and less to seniority, and to limit bump-and-retreat rights. This change, designed to permit the government to retain its best employees, should be made part of an overall personnel reduction strategy.

Action 5: Reestablish Office of Personnel Management (OPM) monthly accounting of full-time equivalent (FTE) employment. Without accurate data prepared on a regular basis and some agency to oversee progress, the goal of trimming the bureaucracy will soon be forgotten.

Action 6: Demand from Congress the elimination of legislative limits on the number and functions of political appointees, and reduce the Executive Office of the President staff by 25 percent. You will need to maintain and even increase the number of political appointees if the bureaucracy is not to smother reform initiatives. It is political appointees who will determine whether or not the Administration will be successful. But the Executive Office of the President is bloated by its own bureaucracy, and its efficiency is impaired. Fulfilling your pledge to reduce it by 25 percent will give impetus to other agencies and Congress to do likewise, and most important, will make the White House a more effective and efficient decision-making body.

Action 7: Reaffirm your commitment to the career service. A strong core of political appointees still must rely upon a professional civil service to be effective. To achieve its support, you must protect the integrity of the career service by such things as limiting "burrowing in" by political appointees to career positions, and seeking changes in the law to protect the service, including the repeal of the Ramspeck Act.

Action 8: Announce a major privatization and contracting-out initiative, with the responsibility for the initiative transferred from the Office of Management and Budget to the Office of Personnel Management. States and local governments have used privatization extensively to cut costs and improve efficiency. The federal government lags behind the rest of the country in the use of private firms and organizations to perform government opera-

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tions. To catch up, it needs a major new initiative that is effectively managed.

Action 9: Modify existing contracting-out rules to provide full-costing of federal government operations when these are compared with private bidders. The bidding process today requires would-be private contractors to factor all overhead costs into bids, yet allows government agencies to exclude many items from their calculations. Loading the dice in this way often deprives the taxpayer of the opportunity for more efficient service.

Action 10: Upgrade the performance appraisal and pay-for-performance systems, and extend performance pay beyond managers to the general work force. Better pay for better performance is at the heart of sound private sector personnel-incentive programs. The opportunity to do this is too limited in a federal sector that needs constant attention to appraisals and resulting rewards to overcome the disincentives of a rule-driven, play-it-safe civil service system.

Opportunities for Reform

If you take prompt and decisive steps such as these, you can make significant headway into cutting the overhead cost of government and toward making the federal work force function more efficiently. The federal bureaucracy is a bloated target for management and budgetary reform. Personnel costs (wages and benefits) equal 15.5 percent of total domestic spending, and other administrative overhead adds 24 percent more, so even minor efficiency gains will translate into big savings. For example, federal retirement alone accounts for 4 percent of the budget. While tougher options are possible, by simply limiting the cost of living increases to the maximum amount of the Social Security cost-of-living-adjustment (COLA) increase, it would be possible to save \$1 billion the first year, and \$20 billion over five years.

Of course, if you really mean to go beyond personnel savings and actually attack the deficit, the Administration of Ronald Reagan could give some additional guidance. After carefully taking out the effects of interest and savings and loan bailout costs, Heritage Foundation scholars Scott Hodge and Robert Rector have shown that the domestic spending Reagan targeted declined from 14.8 percent of gross domestic product to 12.2 percent under his initiatives.¹ Cato Institute scholar Stephen Moore documents that the growth rate of real government spending under Reagan was one-third that of the next closest Administration since World War II. Thus if you are prepared to take serious actions and plan well, there is proof that you can achieve results.

But why, you might ask, should conservatives urge you to learn from the Reagan period, so that you might successfully trim the federal government, allowing you to fulfill your campaign promise and making it more likely that the federal bureaucracy will carry out your policies? For two reasons. The first is that by indicating exactly how you can carry out your campaign pledge, and identifying actions you would have to take if you really do want to cut the bureaucratic overhead of the federal government, the American people will have a checklist on which

¹ Robert Rector and Scott Hodge, "What George Bush is Not Being Told About Federal Spending," Heritage Foundation *Background* No. 886, March 4, 1992, p. 2.

to compare performance with rhetoric. If you are serious—or not—they will be able to tell from your actions.

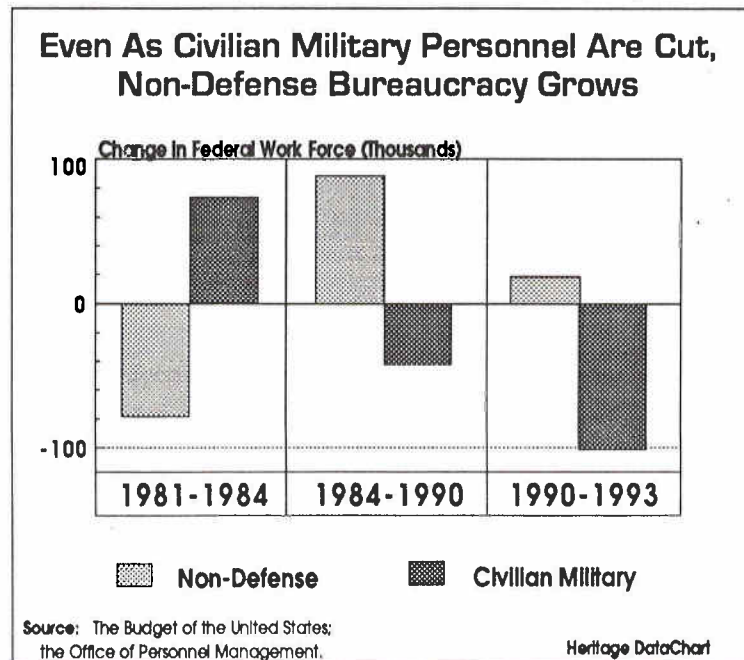
The second reason is that a serious threat to your strategy to reform government will come from inside the federal bureaucracy—as it did when Ronald Reagan came to power. It is the nature of bureaucracy: Pressure will come from those who do not want a lean, efficient government, but simply a large one. And it will come from those who will try to promote the old-style liberal “solutions” through bureaucracy and regulation that were rejected at the ballot box. It is in your interest, as well as the interests of conservatives, to ensure that these forces are not successful through omission. If you pursue these recommendations to make the federal bureaucracy work efficiently for you and these old-liberal policies are still pursued, then you will not be able to blame any failures on bureaucratic intransigence, and the American people will be able to judge fairly that it was the liberal policies that were the problem. And if you do reform the bureaucracy to make it carry out the policies of your White House, that also will provide an efficient executive branch to enable the next conservative Administration to correct the failed liberal policies that were adopted.

LESSONS OF THE REAGAN ADMINISTRATION

The bad news is that cutting 100,000 federal jobs will be difficult. The unions and managerial associations will protest vigorously, the career managers will resist having fewer subordinates to spread the work and build their empires, and the political appointees will try to avoid the hard decisions that will attract unwarranted press attention. The good news is that it can be done—Ronald Reagan showed how.

Then-Governor Reagan promised in the 1980 election to reduce the size of the bureaucracy. Once in office he classified his goal as a decrease in non-defense full-time equivalent (FTE) personnel of 75,000. The accompanying table shows that between 1981 and the end of the first Reagan term in 1984, non-defense federal employment went down by 78,650, thereby exceeding his goal. The decrease in number of employees, the “head count,” actually was 105,484. Significantly, about 90 percent of the decrease had been achieved by the end of the first year. Early, bold, and inflexible action in the form of a total freeze on employment, followed later by a more flexible, managed freeze, allowed the target to be achieved.

It is also important to learn from the shortcomings of Reagan’s second term. By the end of the second term, non-defense employment totals had edged back up nearly to the levels under Jimmy Carter, although defense civilian and military totals had begun a downward trend. The problem was that the energy of the first term had largely dissipated and clear plans and goals were not set, so the natural forces of bureaucratic growth re-asserted themselves. The reductions achieved in the core Great Society agencies generally held firm, but personnel grew in those agencies that received less personal presidential attention.



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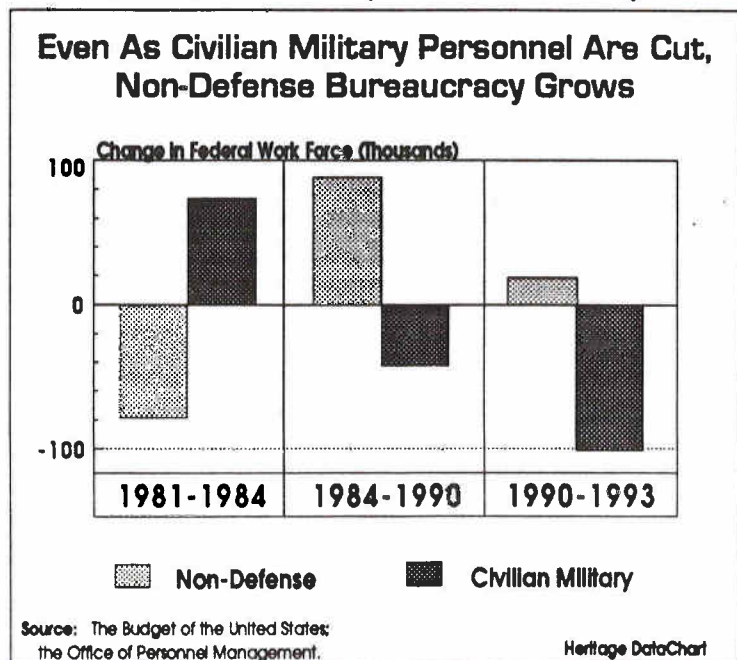
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The Federal Bureacracy: Many Early Non-Defense Personnel Cuts Gave Way to Increases

Agency	1981	1984	1990	1993	81-84	81-93
Agriculture	121,000	108,986	110,755	111,021	-12,014	-9,979
AID	5,616	5,115	4,526	4,454	-501	-1,162
Commerce	36,347	32,305	34,858	36,682	-4,402	+335
Corps of Engineers	32,330	28,681	28,259	27,444	-3,649	-4,886
Education	6,634	5,025	4,596	5,032	-1,609	-1,602
Energy	18,675	16,708	16,815	19,960	-1,967	+1,285
EPA	12,861	11,412	15,155	17,917	-1,149	+5,056
Gen. Services Admin.	32,758	25,572	19,447	19,858	-7,186	-12,900
Health and Human Ser.	154,000	136,969	117,817	125,704	-17,031	-28,296
Labor	21,647	18,577	18,050	18,265	-3,070	-3,383
NASA	22,727	22,080	23,829	24,947	-647	+2,220
Nuclear Reg. Comm.	3,448	3,441	3,188	3,377	-7	-71
HUD	15,703	12,437	13,264	13,837	-3,266	-1,866
Interior	81,747	73,245	71,233	74,000	-8,229	-7,747
Justice	54,422	58,244	79,082	97,968	+3,822	+43,546
Office of Pers. Man.	7,133	5,710	5,702	6,158	-1,423	-975
Panama Canal	9,138	8,137	8,293	8,603	-1,001	-535
Small Business Admin.	4,704	4,238	5,316	4,637	-466	-67
State	22,887	24,139	25,633	26,012	+1,252	+2,925
Transportation	68,055	61,130	64,863	70,212	-6,925	+2,157
Treasury	124,264	123,155	155,931	161,964	-1,109	+36,700
Tenn. Valley Authority	44,752	31,952	23,716	23,000	-12,800	-21,752
USIA	7,636	8,167	8,598	8,679	+531	+1,043
Veterans	209,575	218,545	214,040	221,518	+8,970	+11,943
Other	45,587	41,414	43,506	57,382	-4,173	+11,795
Non-defense	1,163,646	1,084,996	1,169,370	1,187,929	-78,650	+24,283
Civilian Military	937,700	1,011,532	969,059	867,772	+73,832	-69,928
Uniformed Military	2,122,002	2,177,717	2,163,364	1,846,923	+55,715	-275,079

Source: The Budget of the United States; the U. S. Office of Personnel Management.

Setting Priorities: What Reagan Did, What Bush Did Not

While the two Reagan terms are instructive in their different ways, so is the Presidency of your immediate predecessor in the White House. George Bush said he, too, would cut the bureaucracy, but he never made clear beforehand what programs were to be targeted, even in the general terms of the second Reagan Administration. Nor did he detail plans specifying how or to what degree this should be accomplished after he entered office. Consequently the domestic bureaucracy under Bush increased 24,283 (actually more if budget sleights of hand are corrected) during his term. Conversely, through congressional pressure and to a great degree against Bush's desires, uniformed military personnel actually went down 275,079 and civilian military employment decreased 69,928.

The important point about the data in the table is the different patterns during the conservative Reagan and more moderate Bush Administrations. There are actually four patterns:

Pattern 1: Reagan and Bush both were tough on foreign aid (AID), government engineering projects (the Corps of Engineers and the Tennessee Valley Authority), Education, the General Services Administration, Health and Human Services, and the Small Business Administration.

Pattern 2: While Reagan was significantly tougher in a second set of agencies — Agriculture, Housing and Urban Development, Interior, Labor, Office of Personnel Management, and the Panama Canal Commission — the Bush Administration held up reasonably well, too.

Pattern 3: Both Administrations went weak in the knees in the face of Justice, Veterans, the State Department, and the United States Information Agency, presumably because of joint Republican support of law and order, veterans, and upholding the flag abroad.

Pattern 4: Where Reagan and Bush differed the most was over regulatory agencies. Bush seemingly could not say no — whether at the Environmental Protection Agency, in major cabinet departments (treasury tax agents — perversely added to the budget as "savings" to increase revenues; and commerce and energy overseers), or in independent ("other") regulatory bodies.²

Thus President Reagan, at least in the first term, cut positions across the non-defense spectrum, faltering only on positions related to crime and America's presence abroad, while Bush let much of domestic government grow without any real overall plan. It is Reagan, then—setting and sticking to his agenda and achieving it the first term before the interests affected coalesced—who provides the best model for a Clinton Administration success in cutting personnel.

² William G. Laffer III and Nancy Bord, "George Bush's Hidden Tax: The Explosion in Regulation," Heritage Foundation *Backgrounder* No. 905, July 10, 1992.

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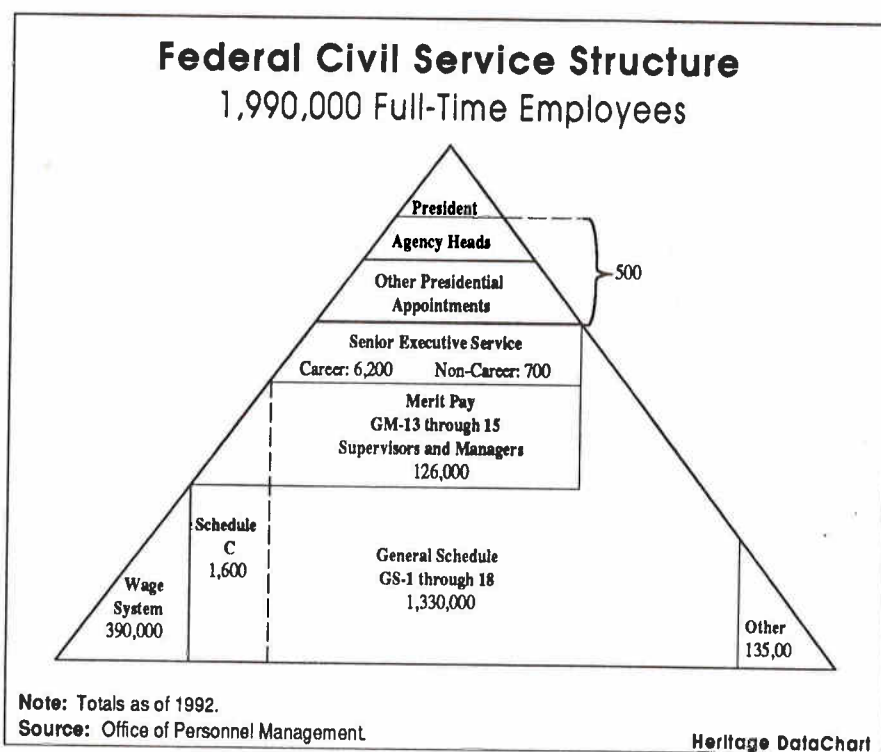
The Politics: Also Follow Reagan, Not Jimmy Carter

Although it was Ronald Reagan who actually cut the bureaucracy, Jimmy Carter prepared the way for his successor's achievement. President Carter was elected on a platform to reform the bureaucracy, and in 1978 he pushed through to enactment the historic Civil Service Reform Act (CSRA). Without that reform, the Reagan Administration would not have been able, as Paul Taylor of the *Washington Post* put it, "to assert its policy control over the top levels of its bureaucracy" and thereby to carry out its goals.³ The CSRA was crucial because it provided a more flexible personnel management system, which allowed federal executives actually to manage.

The problem was that Jimmy Carter did not tell anyone that he had fulfilled his promise to reform the bureaucracy, and what it meant. He did not highlight his accomplishments, even to his own managers, and thus received only the negative news generated in the media from the unions and others who opposed him. So the CSRA yielded few tangible results under Carter; to a great degree time simply ran out on his term. By contrast, from day one, Reagan and his team used the tools of the CSRA and kept the issue of reducing the size of the government and increasing its efficiency firmly in the news so that they could generate some countervailing support from a public that praised the news that bureaucracy was being mastered.

WHAT YOU CAN CUT

What is the federal bureaucracy? When reporting federal employment figures, the press routinely includes the independent Postal Service—which cannot be managed directly by the President—in government employment totals. Journalists also do not tend to distinguish between defense civilian employment (which President Reagan wanted to expand to win the Cold War) and domestic civilian personnel (which Reagan planned to cut). Sometimes the uniformed military are included, and often they are not. A confusion as you prepare to assume office, President-elect Clinton, is that as candidate you did not make clear where you want to make reductions.



Clarity is essential because the civilian personnel system is immensely complex. As pictured roughly in the accompanying chart, it has many discreet elements:

³ Paul Taylor, "Frictions Crest in Civil Service in Reagan Era," *The Washington Post*, January 19, 1983, p. A1.

- 1) **Presidential appointees, about 500 in number, who serve at the pleasure of the chief executive;**
- 2) **Non-career Senior Executives, totalling approximately 700, serving at the pleasure of the agency head;**
- 3) **Career Senior Executives, consisting of 6,000 or so individuals, who are protected by Senior Executive Service (SES) rules;**
- 4) **Schedule C non-career managers and policy makers, about 1,700 in number, serving at the pleasure of the agency head;**
- 5) **Career managers, numbering 120,000, who are protected by Civil Service rules;**
- 6) **General Schedule professional, administrative, and clerical white collar workers, totalling 1.3 million, who are protected by the Civil Service rules;**
- 7) **Wage Grade blue collar employees, numbering 300,000, who also are protected;**
- 8) **Specialized personnel schedules, who are 120,000 or so workers organized into a dozen professional schedules, such as Foreign Service, lawyers, administrative judges, public health and medical personnel; and**
- 9) **The uniformed military, comprising 1.8 million employees, grouped in their own systems.**

It is important for technical and other reasons that you understand and decide which of these categories is to be included in your target and which is not. The alternative is for reductions to take place in haphazard ways—or not at all—in areas not in accord with your wishes.

Can Defense Cuts Achieve the Goal?

Given the structure of the federal work force, you can hardly achieve part of your goal by taking credit for Postal Service personnel reductions. For one thing, the Postal Service already is taking steps to reduce its personnel. Some 30,000 management and staff positions are being eliminated by Postmaster General Marvin Runyon, and so far an additional 17,000 postal employees have accepted an offer of early retirement. For another, the Service is now a semi-private organization in which you do not have the power to cut positions directly. The real question for you is whether your personnel reduction goal can be met through reducing defense alone, as many liberals clearly want.

Focusing on defense raises the question: How much is enough? Uniformed military employment already has declined by over a quarter-million and civilian defense personnel have been cut by almost 70,000 from the Carter levels. However, as a candidate you also pledged to cut uniformed personnel 200,000, so your promise of a 100,000 reduction in the bureaucracy presumably must be restricted to civilian workers. You could confine the 100,000 reduction to just civilian defense employees, a significant portion of whom are now planned for downsizing over the long run. But your pledge is not very meaningful in policy or management terms if it does not cover anything other than what is already planned, and nothing new for Democrats if it covers only defense. The interesting question is whether your pledge implies more.

HOW TO CARRY OUT YOUR PLEDGE

Bearing in mind the experience of previous Administrations, and the pitfalls and complexities involved in reducing the federal bureaucracy, the following ten-point action plan would be a sound strategy for achieving your goal.

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In government management, experience shows that most real progress is made by using blunt instruments. A majority of the early success of the Reagan employee reduction policy was the result of the total freeze he placed on hiring before he even left the Capitol on Inauguration Day. As President, you must likewise act decisively and immediately if you are to be judged as acting seriously. Placing a total freeze on federal employment thus should be among your first acts. As a candidate you also promised a 3 percent across-the-board administrative overhead reduction, which should be made part of the same package of measures during the first few days of your Presidency.

A total freeze will allow you to build a "bank" of cut work years that will permit you to achieve your full target of reductions over a longer period through more rational management planning.

The freeze should be "permanent," and it should exempt only the political employees you need to organize your new Administration. Permanent means in this sense indefinite, so that government officials cannot plan simply to delay hiring while proceeding to plan future hires. The freeze cannot in practice remain total for too long without causing severe problems, but that should not dissuade you from instituting the policy. The freeze will need to be modified after six months or so, but the White House should not indicate in advance how it might be modified or there will be bureaucratic gaming.

Action 2: Demand the elimination of minimum staffing levels in all departments and agencies.

During the Reagan and Bush years, for instance, Congress placed minimum personnel levels in several departments and agencies to protect certain programs. This is micro-managing at its worst and an intrusion into presidential prerogative. You do have the advantage, however, that Congress might be more willing to end these limitations for an President of the same party.

Action 3: In the second phase of the freeze, institute a modified freeze, administered by the Office of Personnel Management.

A second phase of the freeze should be introduced after about six months. This should allow exceptions for critical skills and to fill positions for essential functions. To keep agencies from subverting the employment reduction function, the process must be managed centrally by an agency with the expertise and clear focus upon personnel to make the policy a high priority, and managed by an official strongly committed to your personnel reduction goals.

The temptation, of course, is to turn to the Office of Management and Budget (OMB)—close by within the Executive Office of the President—to handle the exceptions process in a modified freeze. OMB has neither the needed skills nor will it have the necessary clear focus upon the mission. The reason is that the budget, not management, necessarily dominates OMB's perspective. OMB only seriously analyzes the cost effects of personnel to specific programs and agencies, never to true staffing needs, much less to the overall objective of reducing the size of the bureaucracy.

The Office of Personnel Management, by contrast, need not suffer from these deficiencies. OPM has the knowledge—or can regain it—of agency operations needed to assess true requirements. And through its special pay rates program, OPM can determine the need for specialized

skills and provide the means to solve them. Thus, under a modified freeze, all agency requests for exceptions should be made to OPM and that agency should be limited only by overall budget levels already allocated to the agencies by OMB.

Action 4: During the modified freeze, reform Reduction-in-Force (RIF) regulations to give more weight to performance.

Consideration should be given to whether phase two should include Reductions-in-Force (RIFs) and furloughs to keep costs within budget. Although as a candidate you did say that the 100,000 reduction would be accomplished solely through attrition, in practice it is not possible to achieve efficient overall work force management without some RIFs and furloughs.

If RIFs are used at all—and they must be for certain operations if they are restructured—your OPM should review the Reagan Administration proposals to base employee retention during downsizing more upon performance than on the current seniority-dominated weighting process, and to limit so-called bump-and-retreat rights, under which lower-level employees are routinely “bumped” out of the service by higher-level individuals with greater seniority who are over-qualified (and overpaid) for the positions. Modifying this practice not only would lead to the better workers being rewarded and the work-product upgraded, but it would mean also that women and minorities would not be disproportionately affected by RIFs simply because they tend to have the least seniority.

By following the Reagan Administration work force reduction guidance emphasizing attrition, but allowing some RIFs and furloughs, it should be possible to minimize the negative effects. Over 90 percent of the Reagan reductions were achieved by attrition—and many of these were moved to other positions through a newly instituted placement program. By contrast, during the only other recent Administration to reduce the bureaucracy by any comparable size, under President Dwight Eisenhower, almost 90 percent of the cuts were achieved by firings. A Democratic Administration could hardly follow the latter course—and it would be too expensive, anyway—but it might well be able to follow the Reagan policy without severe employee reaction if it worked closely with the unions and employee associations.

Action 5: Reestablish Office of Personnel Management monthly accounting of full-time equivalent (FTE) employment.

Not only is the government personnel system naturally complex, the government tries further to confuse the situation by the way it counts employees. At the beginning of Ronald Reagan's first term, there was no accurate count of total standardized work years in the federal government—a necessary basic measure to ensure that bureaucrats do not merely eliminate part-timers in response to higher-level orders while at the same time hiring back full-timers, effectively increasing personnel when appearing to cut them. Even the data collected at that time were not in a useable form and were available only once a year.

Believe it or not, it took several months of enormous pressure to put the employment figures in a form useful for work force management. The resultant data were extremely useful for measuring agency performance and pressuring agencies to conform to presidential directives to reduce employment. Too useful. Regular employment reports are no longer produced. Admittedly, they are produced once a year in the Budget (although somewhat inaccurately), but they are well hidden—this year on page 138 of the appendix. Fortunately, some of the earlier reports still exist and allowed us to construct the earlier table. Your Administration will have to re-create the Office of Personnel Management monthly report if you wish to monitor progress, and your Office of Management and Budget no doubt will resist doing this because OMB does not like anyone peering over its shoulder.

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A running measure of full-time equivalent (FTE) work years is indispensable to monitor progress. But that measure does have two political drawbacks. First, you will need to translate your goal to cut 100,000 into FTE terms to be meaningful, or only part-time positions are likely to be cut and the actual number of positions eliminated may be less than you desire. Politically, translating 100,000 positions into FTE will make the total cut look smaller than you promised. Alternatively, of course, you could hold firm to a target of 100,000 FTE positions and cut more slots. Second, because standardized work years accumulate over time, it is necessary to make the reductions early in the year so that they are counted as a full-year persons, if you are to receive full credit for the reductions that in fact are made.

Action 6: Demand elimination of congressional limits on the number and functions of political appointees, and fulfill your promise to reduce the Executive Office of the President (rather than the much smaller and more difficult to cut White House Office) staff by 25 percent.

Political employees will make or break the Clinton Administration, as has been the case with every other. Government management does not have the private sector luxury of bottom-line profit-and-loss financial statements to measure its success. Government budget figures tell only what was spent last year, not whether the program or its staff were successful. In government, the only real replacement for private sector financial statements is personnel management.

Managing and leading people is what efficient government is about, and even more so in the sprawling national bureaucracy. President and former Governor Jimmy Carter showed that it cannot all be done from the Executive Office of the President, like running a small state from the Governor's mansion in Atlanta—or Little Rock. While the White House Office must play a central role in planning, it would be more effective if that role were undertaken with a leaner Executive Office of the President staff (which you wisely promised to reduce by one-quarter) and if the line-function Cabinet and top agency heads were brought more into the top management team. Placing throughout the agencies political appointees who are dedicated to the President rather than their own personal or narrow agency agendas is the secret to control of both the management and policy process.

This in turn means that the Office of Presidential Personnel must make appointment decisions upon loyalty first and expertise second, and that the whole governmental apparatus must be managed from this perspective. Picking appointees who are "best for the job" merely in terms of expert qualifications can be disastrous for a government genuinely committed to change.

The Office of Personnel Management must also play a critical part developing a team, managing the Senior Executive Service (SES) system, and overseeing Schedule C positioning. Because they are so critical, political appointees need some special attention: they need presidential access—limited depending upon rank and importance—and they must be excused from actions otherwise affecting the personnel process, such as freezes. In return, they can better manage the morass that lies below them.

Action 7: Reaffirm your commitment to the career Civil Service, such as by urging repeal of the Ramspeck Act.

If political executives are appointed and well supported as they carry out the President's mission, it is not necessary to subvert the career system. A new Administration understandably is worried that the opposing party will attempt to place many of its political appointees into the career Civil Service. For this reason, Senator David Pryor, the Arkansas Democrat who is chair-

man of the Senate Government Affairs subcommittee on the Civil Service, immediately after the election warned Bush Administration political officials not to "burrow in" to the career bureaucracy.

But this view of the Civil Service should apply to the new Administration as well. The policy of the first-term Reagan Administration was to discourage burrowing in its by own officials as well as those of the previous administration. While the 1940 Ramspeck Act guarantees this to congressional and White House staff for the early days of this transition, the new Administration should end this practice for the future and tighten provisions for other appointees.

The corresponding responsibility on the part of the new Administration is to reject professional career pressure to reduce the number of political appointees. For example, the National Commission on the Public Service, which consists of former career officials, has called for appointing political officials on "merit" only and to reduce the number from 3,000 to 2,000. Congress, too, has begun to limit flexibility for political appointees, a situation a Democratic President should be better able to rectify.

Recognizing both the protected status of the career service and the legitimate role for political appointees strikes the right balance. It also should increase the likelihood that your broader proposals for governmental reform will be achieved.

Action 8: Announce a major privatization and contracting-out initiative, with the responsibility for the initiative transferred from OMB to OPM.

Recent Presidents, as well as governors and mayors across the United States, have recognized the benefits in reduced costs, efficiency, and improved management in the policy of contracting work out to the private sector and other forms of privatization. The California-based Reason Foundation has identified \$300 billion of federal assets that could be put to more efficient use in the private sector, while increasing federal revenues. Moreover, one of your top campaign advisors, David Osborne, has argued persuasively for the strategy.⁴

Still, no recent U.S. President, unlike the chief executive in lower levels of the government or national leaders in other countries, has given contracting-out and privatization the top-level attention necessary to implement it widely, or provided sufficient incentives to prevail against the predictable resistance of career interests. The current U.S. program exists as a neglected backwater within OMB and receives almost no support.

Reducing even 100,000 federal employees does not deal with the problem that the work force is overpaid for most positions, has the most generous pension in the world, and operates under a system that destroys incentives to work efficiently. While effort should be expended to reform these remaining functions, the experience of the Reagan Administration is that reforms will be limited and costs only marginally reduced without privatization.

The wise course would be a serious contracting-out and privatization program backed with your strong personal support and assigned to a new agency to assure priority attention, optimally to OPM. Years of experience at lower levels of government prove that strong leadership can be combined with sensible incentives to turn around or at least neutralize employee resistance. If part of the savings are given to the managers who recommend privatized services and the employees who agree to shift with the function to the private sector, for instance, as well as to those who remain to oversee the operation, it is possible to achieve employee support. As

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President, you could implement the more or less moribund so-called FED CO-OP program—designed to give shares in the private firms to those federal workers who assist in making the transfer. At the state and local level, Democratic mayors and governors have been in the forefront of such privatization initiatives.

Action 9: Modify existing contracting-out rules to provide full-cost accounting of federal operations when these are compared with private competitors.

Current federal law requires a competition between governmental and private bidders for functions that are considered for transfer to the private sector. Even if the governmental operation wins the competition, the result should be improved services as it restructures to be competitive. To be a serious competition, however, it will be necessary to include the total governmental cost—especially pension, foregone taxes, and other overhead costs. This is not the case at present. The private contractor must include all indirect costs while the government does not, handicapping the outside bidder by as much as 30 percent, and denying the taxpayer the chance for more efficient services. As President, you should modify the rules on contracting out to require the proper, full-cost comparisons to be made.

Action 10: Upgrade the performance management system and extend performance pay to the general work force.

Even with a major privatization effort, many functions necessarily will remain within the government, including overseeing contracted-out operations. But in contrast with the private sector work force, federal employees operate within a system that destroys innovation and efficiency. The 1978 Civil Service Reform Act did create a more flexible management and performance-oriented system, but such a rule-driven system needs constant upgrading.

An efficient system depends on a fair and meaningful performance appraisal process, with pay-for-performance consequences resulting from the appraisals. The Reagan Administration understood this and implemented the Carter-planned appraisal system for all employees, and performance pay for managers and executives, giving it high priority at least through the first term. The basic tools still exist, but the system will require constant prodding to force executives to exercise their responsibilities. The temptation is to grade everyone equally and to flatten out bonuses so that managers do not have to make the difficult decisions of telling some people they did poorly and to pay them less. Bureaucracies may run more comfortably when they do not make such tough decisions, but they also run without energy or efficiency.

The Reagan Administration tried early to extend pay-for-performance from just managers to the rest of the federal bureaucracy. Union and employee association pressure on friendly congressmen stymied that reform. But the system cannot work optimally with the great majority of the work force denied the chance to earn higher pay for good performance. If there are not monetary consequences resulting from performance appraisals (or separations for very poor performance, for that matter) they lose their credibility and utility. Again, a Democratic Administration might have better success from a more friendly Congress.

Prepared for The Heritage Foundation by
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