

The Thomas A. Roe Institute for Economic Policy Studies

October 7, 1993

**THE NATIONAL PERFORMANCE REVIEW:
FALLING SHORT OF REAL GOVERNMENT REFORM**

"The federal government is not simply broke; it is broken."

—The National Performance Review¹

INTRODUCTION

When Vice President Al Gore released the recommendations of The National Performance Review (NPR) on September 7, Americans were told this was a blueprint for "reinventing" government. The six-month-long, government-wide investigation was intended to produce a plan to "make government work better and cost less."

The report does contain hundreds of specific recommendations. Gore claims these will:

- ✓ Streamline government programs and make them more efficient;
- ✓ Trim the civil service by a total of 252,000 federal workers and make the bureaucracy more accountable; and
- ✓ Improve government services and make agencies more responsive to taxpayers.

Over five years, the Clinton Administration says, these measures will save taxpayers \$108 billion: \$29 billion from itemized program savings, \$8 billion from new revenues, and the remaining savings from other unspecified improvements in efficiency.

Although many of the National Performance Review's recommendations sound ambitious, a closer look at the report reveals that the Administration has avoided the tough actions needed to deliver on its promise of structural reform.

To be sure, reforming the civil service and instituting better financial standards will mean some improvement in the way the government functions. But tinkering with the process of

1 The National Performance Review, *Creating a Government That Works Better & Costs Less*, September 7, 1993, p. 1.

government, rather than addressing the substance of what government does, is not radical reform. Moving paperwork more efficiently through programs that should no longer exist, or which are beyond repair, is not reinventing government. Moreover, for Gore to deliver on many of his proposed reforms, the Administration will have to confront powerful congressional committees that have thwarted similar reforms in the past. It is not at all clear that the White House is prepared to do that.

The true tests of the Clinton Administration's seriousness in reshaping Washington's landscape thus lie ahead.

Example: The NPR rightly identifies Congress as the major cause of many problems in government and the biggest stumbling block to instituting reforms. **But will the Administration push hard to move its recommendations through Congress?**

Example: The NPR says it wants to make government more consumer-friendly by requiring bureaucrats to be more courteous. **But will the Administration enact measures that would empower taxpayers to punish agencies that fail to deliver the promised level of service?**

Example: The NPR says introducing market mechanisms into government will lead to greater efficiency and accountability, and lower costs. **But is the Administration prepared to overcome congressional opposition to serious privatization measures of the kind used by local governments and many foreign countries?**

Example: The NPR says reducing Washington's micromanagement of state and local governments will foster innovation, creativity, and neighborhood-based solutions. **But will the Administration be able to persuade Congress to devolve functions to the state and local levels?**

The Administration must go well beyond the mainly process-oriented prescriptions contained in the NPR report if it is really serious about reforming government. In particular, three steps are needed to get to accomplish a real reform of the federal government:

Step #1: Eliminate all unnecessary programs. The Administration should determine which programs have outlived their usefulness, or engage in activities that simply should not be done by government at all. These programs should be eliminated.

But while there are scores of programs which fit these categories, the NPR could find only three of any significance—the Wool and Mohair Subsidy program, and the Honey Subsidy program, and the curiously named Essential Air Service program.² And the NPR's answer to duplication and fragmentation is not to eliminate programs with overlapping functions, but to create seven new programs and councils to coordinate these duplicative efforts.

Step #2: Use federalism to move services closer to taxpayers. The Administration should determine which government programs should be run by lower levels of

2 Note: Congress began work to eliminate these three programs well before the release of the NPR report.

government rather than by the federal government. These should be transferred to state or local governments.

The NPR admittedly chose not to transfer any federal functions to a more appropriate level of government because of likely political opposition in Congress.³ Instead, the NPR merely makes two modest proposals to remove some red tape from lower tiers of government. It recommends giving local governments greater flexibility to consolidate funds from small federal grants. And it recommends consolidating 55—out of over 600—federal grant programs into six broad “flexible grants” to states.

Step #3: Use privatization to bring market discipline to government services. The Administration should determine which programs are private in nature and best delivered by private enterprises or nonprofit organizations. The appropriate privatization technique should then be used to deliver these services.

The NPR’s authors clearly understand that because government programs are monopolies, they are impervious to the market penalties that force innovation and efficiency in private firms. But instead of recommending the full privatization of many government functions, the NPR would place just a few government activities in protected competition with private firms or other government agencies. Such limited measures would merely create more entities like the U.S. Postal Service—private in appearance, but shielded from real market forces.

The National Performance Review report does contain a number of sound recommendations that can and should be adopted immediately. But the report should not be hailed as a road map for reinventing government. Accomplishing that worthy goal will take far more sweeping actions, and a greater willingness to confront the political opposition, than the NPR is prepared to contemplate.

THE COMMISSION’S MANDATE

When President Bill Clinton announced he was appointing Al Gore to head the National Performance Review, the White House claimed the NPR would:

challenge the basic assumptions of every government program, by asking the hard questions that government has dodged for too long: Does the program work? Does it waste taxpayer dollars? Does it provide customer service? Does it encourage innovation and reward hard work? If the answer to these questions is no, can the program be fixed — or is it no longer needed?⁴

In releasing the task force report, however, Gore admits that his review stopped short of the promised critical appraisal of programs needed to downsize government. Said Gore, the National Performance Review “focused primarily on *how* government should work, not on *what* it should do. Our job was to improve performance in areas where policymakers had already decided government should play a role.”⁵ But as President Clinton pointed out, overhauling

3 National Performance Review, p. 39.

4 White House press release, March 3, 1993.

government includes reaching the conclusion that government should not be undertaking some programs.

Vice President Gore established three benchmarks for his commission's proposals:

- 1) **Does the proposal make federal programs work better and, as a result, will programs be more responsive and accountable to customers of government services?**
- 2) **Does the proposal lead to a smaller, more efficient bureaucracy?**
- 3) **Does the proposal produce a more streamlined government, free from outmoded or obsolete programs, or programs that simply do not work?**

Holding the recommendations to Gore's own standard shows the report, unfortunately, did not live up to its promise.

WOULD THE PROPOSALS MAKE GOVERNMENT MORE CONSUMER-FRIENDLY?

The Administration clearly understands that two key elements are needed to empower customers of government services in the same way the competitive economy empowers them:

First, consumers must have the freedom of choice in both services and the means of delivery; and,

Second, consumers must have a method of redress to punish the company—or government agency—that fails to deliver the promised level of service.

The NPR urges the President to direct departments and agencies to take steps to give consumers these powers. But although the NPR's authors seem to understand the essence of consumerism—choice and redress—the report's recommendations do not reflect this understanding. For instance, instead of proposing voucher systems, which for some services would allow customers to choose from among a variety of vendors, the NPR wants to establish “coordinating councils” to act as intermediaries between customers and government agencies.

Typical of this misunderstanding of choice, the NPR would create a new quasi-government business enterprise to “solve” the confusion caused by some 150 different federally funded education and training programs. Gore proposes creating a nationwide system of one-stop, career development centers open to all Americans. But a genuine consumer-based solution to the duplication within education and training services would be to “cash out” all of these programs and use the money to fund vouchers that those who need training could use where they chose. This is similar to the approach taken to providing veterans education. The government did not set up a nationwide chain of veterans education centers; instead it offered veterans the G.I Bill, which could be taken to any institution of higher education—public or private.

Similarly, the NPR would not give real redress when an agency failed to perform its obligations to its clients or customers. To be sure, the NPR proposes service or performance standards for a number of agencies, including the U.S. Postal Service and the Internal Revenue

5 National Performance Review, p. ii [emphasis in original].

Service. But the NPR does not specify what penalties the Postal Service will suffer if mail is not delivered within a specified time.

Significantly, it did not take a government commission to require private overnight delivery companies to give customers full refunds if a package was not delivered by 10 a.m. Competition did that, not directives.

NEEDED: A CITIZEN'S CHARTER

Gore should have journeyed to the United Kingdom to see how agencies can really be forced to serve ordinary citizens. Britain's Citizen's Charter, established by Parliament in 1991, lays down precise standards of service for a range of agencies. The government developed a set of 26 individualized charters detailing performance standards taxpayers should expect from particular programs and—just as important—specific remedies should these programs fail to meet the standards.

Some examples:

The Tenant's Charter. If a public housing authority does not provide a standard level of quality service, the tenants are entitled to compensation or can be given the power to transfer management to a private landlord.

The Parent's Charter. This Charter outlines the specific performance guarantees that parents should expect from the public school system. Parents are entitled to complete information concerning their child's education and the quality of their school. Quality rankings are released each year by the government and published in major newspapers and made available at local libraries. Parents are also allowed to transfer their children to schools they feel are of superior quality.

CAN THE BUREAUCRACY BE MADE EFFICIENT?

The National Performance Review identifies several problems that have long plagued the federal civil service. Among the most pervasive: excessive layers of middle management, a lack of accountability, poorly trained workers, inefficient procurement, and a lack of performance goals or standards.

To remedy these long-standing ills and to initiate serious civil service reform, the NPR recommends that several actions:

- ✓ Eliminate 252,000 positions over a five-year period, saving an estimated \$40 billion;
- ✓ Introduce flexible performance management and reward systems to improve agency pay for meritorious work; and
- ✓ Adopt reforms to simplify the procurement system.

While these suggestions are welcome, and would lead to some improvements in efficiency, several recent actions taken by the White House call into question the Administration's determination to carry out these worthwhile reforms. For example, just days before the release of the NPR report, on August 25, the Office of Personnel Management (OPM) proposed new regulations which would move civil service reform in exactly the opposite direction of the NPR's recommendations.

PRINCIPLES OF THE CITIZEN'S CHARTER

The purpose of the Citizen's Charter is to empower individuals as consumers of public services by establishing mechanisms and procedures for public services that give citizens rights similar to those they have in dealing with private businesses. Under a Charter system every citizen is entitled to expect the following from their government:

LOW COST, QUALITY SERVICE

The government should provide the highest quality services at the lowest possible cost.

COMPREHENDIBLE STANDARDS

Specific and explicit standards for every government program and function should be developed. These standards should be published and prominently displayed for public consumption.

ACCOUNTABILITY

Programs and employees should be held accountable for failure to comply with the defined performance standards. Clearly defined penalties for performance failures should be developed and disseminated to the public.

CLEAR PROCEDURES FOR REDRESS

Every federal program should develop standardized procedures for citizen complaints and specific remedies for citizens if the government service fails to live up to standards.

OPENNESS

The operations of the government should be as public as possible. There should be no secrecy about how public services are run, how much they cost, who is in charge, and whether or not they are meeting their standards. All of this information should be provided in clear, layman's language.

CHOICE IN SERVICE

Whenever feasible, the government should provide choice to taxpayers. Citizens should not be "stuck" with only a monopoly service.

NON-DISCRIMINATION

Services should always be available regardless of race or sex. As well, all government services should benefit the widest possible spectrum of citizens and avoid reaping inordinate benefits on a select few.

ACCESSIBILITY

Government services should be run to suit the convenience of citizens — not staff. Taxpayers should expect courteous and efficient customer service from public servants.

Source: *The Citizen's Charter: Raising the Standard* (London: Her Majesty's Stationery Office, July 1991).

While the NPR report recommends merit-based performance standards, OPM's proposed new rules would emphasize seniority, especially among non-veterans, in retention policies for federal employees.⁶ These new rules not only contradict the NPR's recommendations, they would substantially reverse the efforts of both the Carter and Reagan Administrations to upgrade the importance of employee performance in personnel policy. The OPM rules would make it even more difficult for managers to retain top performers during reductions-in-force or the consolidation of federal agency functions.⁷

If the NPR's lofty promise of a more efficient civil service is to be believed, the Administration should withdraw these proposed regulations and instead modify reduction-in-force regulations to allow managers more authority to base retention or release decisions upon performance rather than seniority. Federal managers must be able to apply the same standards of excellence to their employees as a private sector firm would use when reducing its work force.

6 Veterans are afforded hiring preference by civil service hiring rules.

7 Mike Causey, "Good News, Bad News," *The Washington Post*, August 25, 1993. p. B2.

Another new regulation now being considered by OPM will make the PR's promised merit-based performance standards even less believable. This regulation will establish a two-tiered quality rating system, under which employees will be ranked on a "pass/fail" basis, with no other performance descriptions applicable.

Under the current system, which was established during the Carter Administration, employees are ranked on a five-step performance chart. This rates worker quality as "outstanding," "exceeds fully successful," "successful," "below successful," or "unsuccessful." OPM's proposed "pass/fail" ranking would remove a strong incentive for employees to perform above a merely acceptable level.

Equally disturbing, the NPR report itself recommends the creation of a new employee-management organization that could undermine the Carter-Reagan reforms. Establishing a National Partnership Council, says the NPR, would lead to better employee-management cooperation by giving the public employee unions a greater say in restructuring government.

Far more likely, a Partnership Council would be a bureaucracy-driven brake on reform. In particular, the Council would be a vehicle for career bureaucrats to frustrate change.

But beyond these OPM regulations and the shortcomings of particular proposals, the NPR report also fails to provide serious answers to many of the problems it identifies.

Example: The Commission's recommendations would fail to ensure that its proposed work force reductions are measured. To prevent deceptive reporting of personnel reductions, such as counting cuts among temporary employees rather than strictly full-time employees as part of the overall reduction of the permanent work force, OPM must be required to report monthly on the number of full-time equivalent (FTE) employees in each agency. This will enable the Administration and the public to measure real progress in reducing the size of the federal work force.

Example: Although the NPR has recommended many useful procurement reforms, the Administration needs to take tough action to make sure agencies use private contractors whenever they are appropriate and save money. Executive Order 12615 and OMB Circular A-76 already require agencies to use private contractors when that would save taxpayers' money. But these directives are widely ignored or frustrated through congressional action such as minimum staffing requirements and explicit prohibitions on agencies even studying possible savings from privatization. If the federal government is to sharpen its efficiency, the Administration must fight for repeal of these congressional prohibitions.

Example: The report makes no mention at all of the Ramspeck Act. This 1940 Act allows political appointees to bypass civil service entry requirements, and "burrow" into the career civil service in the early days of each new Administration. The Clinton Administration should urge Congress to repeal the Ramspeck Act, since it undermines the independence of the civil service.

WILL OBSOLETE AND FAILED PROGRAMS BE ELIMINATED?

The most disappointing portion of the NPR report is the chapter entitled "Cutting Back to Basics." Reading this chapter makes it clear that Gore's team is not serious about carrying through on the President's promise to eliminate wasteful or unnecessary programs. The title of the chapter lulls the reader into inferring that the NPR will get tough on obsolete programs, eliminate scores of programs that duplicate others, and dismantle programs that simply do not

work. But out of the thousands of federal programs funded each year, the NPR could identify only three programs—the Wool and Mohair Subsidy program, the Honey Subsidy program, and the Essential Air Service program—that are no longer needed.

The best the NPR could do in meeting Gore's promise to "challenge the basic assumption of every program" is to propose the closure of a few hundred field offices in the Departments of Agriculture and Housing and Urban Development, the Small Business Administration, Army Corps of Engineers, and the Department of Energy. By most objective studies, such as those performed by the General Accounting Office (GAO) and the Congressional Research Service (CRS), these agencies have problems far beyond the number of field offices they operate.⁸ Closing a few field offices will not challenge the basic assumptions of any program.

The NPR stretches its credibility further in this chapter by including a section on "Collecting More." Here the authors suggest measures such as raising user fees in public parks, boosting taxes on companies inspected by the Food and Drug Administration (the NPR calls these "fees" even though regulated companies cannot avoid them), and accelerating the debt payments of the Power Marketing Administrations (PMAs), which are government-owned dams and electric utilities. To be sure, these proposals might improve the government's financial practices, but they should not be misrepresented as shrinking government back to its basic functions.

If the Administration were really serious about eliminating unnecessary government programs, it would propose privatizing such inherently commercial activities as the PMAs. The NPR does recommend pushing for congressional approval of the sale of the Alaska Power Administration (APA), one of the PMAs. But this was first proposed during the Reagan Administration and it has been held up in Congress since then. If the Clinton Administration is serious about selling the APA, it will have to fight Congress to do so. Then it should set about selling the remaining PMAs.

There are many other chances the Gore team missed to eliminate the dinosaurs of the federal government. Yet in other cases, where obsolete programs are discussed, the NPR actually proposes "reinventing" these programs instead of abolishing them.

Example: The Federal Helium Reserves and the Rural Electrification Administration (REA) have long outlived their original missions. The helium program was started in 1929 to ensure a constant supply of helium for military blimps and balloons. The REA was created in 1935 to use low-interest loans to encourage private utilities to provide electricity to rural areas. The NPR merely recommends making the obsolete Federal Helium Reserves "more efficient."⁹ It is silent about the REA.

Example: In 1987, the Bureau of Reclamation issued a report conceding that its original mission had ended, stating that "the era of constructing large federally financed water projects is drawing to a close...."¹⁰ The NPR's recommendation: "Create a new mission for the Bureau of Reclamation."¹¹

8 See Geoffrey S. Becker, "USDA: Background on the Department and Reorganization Issues," Congressional Research Service, *CRS Report to Congress*, August 5, 1992. Also, U.S. General Accounting Office, Transition Series, *Housing and Community Development Issues* (GAO/OCG-93-22TR), and *Energy Issues* (GAO/OCG-93-13TR), December 1992.

9 National Performance Review, p. 144.

10 U.S. Department of the Interior, Bureau of Reclamation, *Assessment '87: A New Direction for the Bureau of*

Example: The 1931 Davis-Bacon Act is a Depression-era “Jim Crow” wage-setting law passed to prevent black workers from competing with white labor on federal construction projects. Unfortunately, it still does this very effectively. Davis-Bacon requires that workers receive the “prevailing wage,” meaning union wage, when working on a construction or repair project valued in excess of \$2,000. This makes it harder for lower-skilled, often minority workers to compete for these jobs. The NPR suggests raising this contract threshold to \$100,000.¹² Raising the threshold will not change the Jim Crow aspects of this law. It should be abolished.

Example: According to the General Accounting Office, there is little or no evidence to show that the Small Business Administration has had an impact on expanding small business development since it was formed in 1954.¹³ Rather than close this failed program, the NPR recommends improved management to “increase loans to small business.”¹⁴

Example: The GAO reports that the “Department of Commerce shares its mission with at least 71 federal departments, agencies, and offices.”¹⁵ Further, says GAO, “Export promotion programs are distributed among 10 agencies. The U.S. Department of Agriculture, not Commerce, receives about 74 percent of total funding for these programs, although it accounts for only about 10 percent of U.S. exports.”¹⁶ Rather than question the need for a department that shares its mission with so many other agencies, Gore’s team recommends giving the Department of Commerce Trade Promotion Coordinating Committee a greater role in coordinating federal export efforts.

Example: As of 1990, more than twenty departments and agencies were involved in map-making activities, spending over \$1 billion per year and employing over 8,000 civil servants. Rather than close some of these departments or privatize map-making altogether, the NPR proposes collecting all of this information into a single computer database named “National Spatial Data Infrastructure.”¹⁷ The goal is to make this information accessible to anyone with a personal computer.

To be considered credible, government reform cannot tinker at the margins of programs in this way. This sort of approach leads to such artificial and ineffective reforms as creating coordinating councils when the sensible approach is to eliminate duplicative or obsolete programs.

Reclamation, 1987.

11 National Performance Review, p. 144.

12 National Performance Review, p. 31.

13 U.S. General Accounting Office, Transition Series, *Housing Issues* (GAO/OCG-93-22TR), December 1992, p. 20.

14 National Performance Review, p. 148.

15 U.S. General Accounting Office, Transition Series, *Commerce Issues* (GAO/OCG-93-12TR), December 1992, p. 9.

16 *Ibid.*, p. 10.

17 National Performance Review, p. 116.

HOW CLINTON COULD REALLY REINVENT GOVERNMENT

Any serious plan to reform the federal government must first address the fundamental question: "What is the proper role of the national level of government?" Though individuals of different philosophical persuasions would answer this question differently, most taxpayers would broadly agree with the following statements:

- 1) **The federal government should not continue programs that have become obsolete. Nor should the federal government continue programs that have clearly failed, or activities that the government performs far less effectively and efficiently than alternative institutions.**
- 2) **The federal government should not engage in governmental activities that have no clear national priority. Thus it should not perform functions that are the proper role of state or local governments.**
- 3) **The federal government should not engage in activities that traditionally and most properly are done by private enterprises — either profit-making businesses or charities.**

These three statements provide a framework for streamlining the federal government. This framework suggests broad areas for action and several specific steps.

ACTION #1: Take honest steps for "cutting back to basics."

A serious reform plan must scrutinize each program according to a tough set of criteria. This is especially true for programs designed during a bygone era for reasons that have long since passed, and programs with a long history of problems. Among the basic questions that need to be asked of each program:

- ✗ Has the program become outmoded and outlived its usefulness?
- ✗ Has the program already fulfilled its original mission and, therefore, is no longer needed?
- ✗ Is the program working at all, and is it so ineffective that it cannot be reformed?
- ✗ Is the program unnecessary because its functions are carried out by other programs?
- ✗ Should the government—any level of government—be engaged in the activity at all?

Fortunately, finding an answer to these questions in general does not require exhaustive new studies of programs. Studies published by the General Accounting Office, the Congressional Budget Office, the Office of Management and Budget (OMB), and various non-governmental organizations already contain the analysis necessary for the Administration to take a number of steps.

FORTY SENSIBLE PROGRAM TERMINATIONS

Budget Function Number	Program
(155)	Export-Import Bank
(155)	P.L 480 Grants
(155)	U.S. Contributions to the International Monetary Fund
(250)	The Space Station
(270)	Federal Energy Research and Development Programs
(300)	New Federal Land Purchases
(300)	Bureau of Reclamation Water Projects
(300)	U.S. Forest Service—Road Building
(300)	EPA—Wastewater Treatment Grants
(350)	Dairy Price Supports
(350)	The Cotton Program
(350)	The Peanut Program
(350)	Targeted Export Assistance Program
(350)	Export Enhancement Program
(350)	Federal Crop Insurance Program
(350)	Market Promotion Program
(350)	Farmers Home Administration—Agricultural Credit Insurance Fund (ACIF)
(370)	Trade Promotion Activities & Travel and Tourism Programs
(370)	Small Business Administration
(400)	Airport Grants-in-Aid
(400)	Interstate Commerce Commission
(400)	Maritime Administration—Operating Differential Subsidies
(450)	Economic Development Administration
(450)	Community Development Block Grants
(450)	Appalachian Regional Commission
(500)	Law-related Education Grants and Law School Clinical Experience Grants
(500)	Impact Aid
(500)	College Work Study Program
(500)	National Foundation for the Arts and the Humanities
(500)	Corporation for Public Broadcasting
(500)	ACTION
(550)	Health Professionals Education Subsidies
(550)	Consumer Product Safety Commission
(600)	Trade Adjustment Assistance
(600)	Public Housing—New Construction
(700)	New Veterans Administration Construction Programs
(750)	Legal Services Corporation
(920)	Most Independent Commissions, Councils, and Boards
(920)	Davis-Bacon Act
(920)	Service Contract Act

Step #1: Eliminate outmoded or obsolete programs.

Example: The Interstate Commerce Commission (ICC) was created in 1887 to oversee federal regulation of the railroad industry. Its jurisdiction now includes interstate trucking, barges, buses, and other surface transportation. But transportation deregulation, especially of the trucking industry, has rendered the ICC obsolete. It should be closed down.

Example: The Corporation for Public Broadcasting was created in 1967 to improve the quality of radio and television programming during a time when viewers had few choices. However, today there are over 9,000 private radio stations, and the cable television revolution means that most viewers have access to dozens of specialty channels. The CPB is obsolete and should be closed.

Step #2: Eliminate programs that have completed their missions and are no longer needed.

Example: Started in 1935 to encourage private utilities to provide electricity, and later telephone service, the Rural Electrification Administration has completed its mission. Nearly 100 percent of rural America has electric service and nearly 98 percent has telephone service. Clinton should applaud its success, then close it down.

Example: Since the early 1960s, the federal government has funded medical education programs through the Public Health Service. These subsidies were the result of concern that there might be a future shortage of doctors. In 1965 there were 148 doctors for every 100,000 Americans. By 1988 the ratio was 233, a 57 percent increase. This ratio is expected to grow, leading some experts to predict a glut of doctors in the near future. These subsidies should be discontinued.¹⁸

Step #3: Eliminate programs that do not work, have never worked, or which are in such a condition that they cannot be reformed.

Example: Since 1935, the Farmers Home Administration (FmHA) has loaned over \$172 billion to farmers and rural communities. But according to the House Appropriations Committee report accompanying the fiscal 1994 Department of Agriculture appropriations bill, "the unpaid principal on all FmHA loans as of September 30, 1992, totals \$56 billion." Based upon FmHA's past performance, it is likely that a sizeable portion of this total, and the interest due on it, will never be repaid. Furthermore, GAO reports that FmHA is extending loans to individuals just so that they may repay old loans.¹⁹ This program is beyond reform and should be closed down.

Example: For decades, the U.S. Department of Agriculture has used a variety of subsidies and protectionist methods to increase the incomes of dairy farmers at the

18 Congressional Budget Office, *Reducing the Deficit: Spending and Revenue Options* (Washington, D.C.: U.S. Government Printing Office, 1990), p. 298.

19 U.S. General Accounting Office, "The Farmers Home Administration: Billions of Dollars in Farm Loans Are At Risk," (GAO/RCED -92-86), April 1992.

expense of taxpayers and consumers. As a result of the market distortions produced by this program, the federal government had to spend over \$17 billion purchasing surplus dairy products during the 1980s, while consumers paid over \$40 billion in higher prices for dairy products. Since 1952, reports the Office of Technology Assessment, the number of commercial dairy producers has fallen from 600,000 to about 130,000 today and could fall to 5,000 by the end of the century.²⁰ This program has been an expensive failure for dairy farmers, taxpayers, and consumers.

Step #4: Eliminate programs whose activities are duplicated by other programs.

Example: The Appalachian Regional Commission duplicates the activities of fourteen federal rural aid programs administered by the Departments of Agriculture, Labor, and Transportation. Over the last 25 years, the federal government has spent over \$7 billion in this region, most of it on road construction. But by most objective measures, the ARC has had no noticeable effect on the economic health of the Appalachian region.²¹ It should be closed down.

Example: The Naval Petroleum Reserves are two taxpayer-owned and operated commercial oil fields at Elk Hills, California, and Teapot Dome, Wyoming. These fields were set aside by Presidents William Howard Taft in 1912 and Woodrow Wilson in 1915 to ensure the U.S. Navy a reserve supply of oil. Today, these fields account for about 1 percent of U.S. domestic oil production and duplicate the 600-million-barrel Strategic Petroleum Reserves. These fields should be sold to the private sector.

Step #5: Eliminate programs or activities that should not be government functions.

Example: At an annual cost of \$1.6 billion, the USDA's Conservation Reserve Program pays farmers not to plant crops for ten- or fifteen-year periods on "highly erodible cropland and other environmentally sensitive land." This program has already encouraged farmers to set aside 35 million acres of land, equivalent in size to Illinois. There are two reasons to terminate this program. First, over a typical ten-year payment period, the government's total payments to most farmers will exceed the entire value of the land. This practice has ruined land values in many rural areas. Second, the USDA estimated in 1988 that taking this much farmland out of production would cost over 150,000 agriculturally dependent jobs.²²

Example: The Market Promotion Program subsidizes foreign advertising costs for large U.S. businesses such as McDonald's Corporation, the Pillsbury Company, and the Ernest and Julio Gallo Winery, Inc. Though this \$200 million per year program is scheduled for a modest reduction in funding as a result of the recent deficit reduction bill, it should be eliminated entirely. Taxpayers should not be contributing to the cost of routine profit-generating activities of private industry.

20 James Bovard, *The Farm Fiasco* (San Francisco: Institute for Contemporary Studies Press, 1989), p. 103.

21 Stephen Moore, Director of Fiscal Policy Studies, The Cato Institute, Testimony before the House Subcommittee on Banking, Finance, and Urban Affairs, July 23, 1991.

22 Bovard, *op. cit.*, pp. 221-224.

ACTION #2: **Use federalism to bring the delivery of public services closer to consumers.**

America's federal structure furnishes a ready-made framework for an important facet of government reform. Many services currently provided at the federal level could and should be passed down to the states, counties, and cities of America. Transferring these programs whenever possible to states and local governments would give control to levels of government better able to tailor programs to fit the needs of ordinary Americans.

For example, many welfare, education, and transportation programs currently managed and funded by federal bureaucracies could be transferred directly to state authorities. Using federalism in this way would improve the operation and management of these programs and permit the federal government to concentrate on its most appropriate functions.

Unfortunately, the NPR report does not seriously consider federalism as a system for improving the functioning of government. Although it does recommend consolidating a small number of federal grants and allowing the states greater spending flexibility with federal monetary aid, the list of NPR federalism options ends there. There is no real discussion of how state and local governments could take over the provision of certain public services and bring the control over the delivery of those services closer to taxpayers.

This is unfortunate and somewhat surprising since a number of ringing endorsements for federalism have come recently from close associates of President Clinton. For example, in a book published by the Washington-based Progressive Policy Institute, David Osborne, who is a member of the NPR board, calls for the creation of a cabinet-level "federalism czar" to lead a commission that would formulate and oversee federalism options.²³ And Alice Rivlin, current deputy director of the OMB and former Brookings Institution scholar, has advocated devolving almost all federal social welfare and economic development programs to the states in exchange for federal responsibility for health care.²⁴ Federalism is a widely accepted tool for government reform. But, strangely, the NPR report gave it scant attention.

FEDERALISM STRATEGIES

Several steps could be taken by the Clinton Administration if it is serious about utilizing federalism as a method of structural government reform. In general, only those programs which are vital to the national interest should be administered by the federal government. Regional affairs should be left to the states or localities, which are better able to address their respective concerns.

Step #1: Require full funding of any program currently mandated by the federal government.

Rather than transferring programs to state governments, the federal government is more inclined to require states to carry out activities that the states would not otherwise choose to do.

23 David Osborne, "A New Federal Compact: Sorting Out Washington's Proper Role," in Will Marshall & Martin Schram, eds., *Mandate For Change* (Washington, D.C.: Progressive Policy Institute, 1993), pp. 237-261.

24 Alice Rivlin, *Reviving the American Dream: The Economy, the States, and the Federal Government* (Washington, D.C., The Brookings Institution, 1992).

The cost of such federal mandates upon the states has skyrocketed in the past decade. Clean Water Act mandates alone will cost states over \$80 billion to meet compliance standards.²⁵ Mandated Medicaid spending has risen from 10 percent of state budgets in 1987 to 17 percent in 1992, and could rise to 25 percent by 1995.²⁶ But if any issue is considered so vital by the federal government that it mandates state compliance, it is *de facto* a national concern. Therefore, existing and future mandates should be accompanied by federal funds. That requirement on the federal government would force it to consider whether the activity is truly of national significance.

Step #2: Whenever possible, transfer full control of federally funded programs that are currently operated by states to the respective state governments.

Many expensive programs are funded by Washington but carried out by state and local governments. Two such examples are Medicaid and Food Stamps. In programs such as Medicaid, the federal government pays a portion of the cost, say 55 percent, and the state government must pay the remainder. In other cases, Washington pays for the cost of benefits but states are responsible for paying management and overhead costs. In both types of program, this leads to numerous problems, including: questions of jurisdiction and accountability, excessive red tape and higher costs for local governments, and continual attempts by both federal and local governments to shift rising costs to the other level of government.

This design flaw in the way these programs are funded and managed should be corrected. As an interim step, the federal government should give local governments fixed, or capitated, payments to both deliver the benefits and manage the program with the available funds. This change would encourage state and local governments to deliver the benefits more efficiently and resolve many of the problems of jurisdiction and accountability.

Step #3: End federal grants to the states that do not serve a specific and vital national interest. End all direct funding of local governments. Consolidate remaining grants.

Of the more than 600 grants to the states, few would qualify as being in the national interest. Programs that are inherently local in nature include: the State Underground Water Source Protection Program, Urban Formula Capital Grants, Vocational Education, and Waste Water Treatment Grants. Besides the excessive amount of taxpayer money that is spent on these programs, grants tend to drive up local spending by encouraging them to take on costly projects and activities, far more expensive than they would usually fund. No federal funds should be given directly to the cities, as this duty traditionally, and more appropriately, belongs to the states and not the federal government. Those few grants which do serve a national purpose should be consolidated to improve operational efficiency.

Step #4: End all requirements on the states to compensate the federal government for any assets they privatize that are jointly held or that once received federal funds.

President Bush's Executive Order 12803 ended the compensation requirement for infrastructure, but for little else. States and localities should, however, be able to collect the full

25 Andrew J. Cowin, "How Washington Boosts State and Local Budget Deficits," Heritage Foundation *Backgrounders* No. 908, July 31, 1992, p. 10.

26 Matthew Rees, "The Mandate Milestone," *The Wall Street Journal*, August 18, 1993, p. A10.

benefit of all their asset sales to ensure they are carried out where needed. Requirements to compensate the federal government for asset sales is a major disincentive to privatization and other service innovations.

Step #5: Monitor all federal rules and regulations for their impact on the states, and minimize their impact in keeping with Executive Order 12612.

This Reagan Administration executive order requires agencies not to promulgate regulations that, "directly regulate the states in such a way that would interfere with functions essential to the States' separate and independent existence...." The order also requires that state law not be preempted unless it serves a "clearly legitimate national purpose." Hopefully, the Administration will apply the Reagan standard when considering potential impacts in the future.

Step #6: Extend "regulatory waivers" to the states to allow them to more effectively manage environmental and housing programs as they have entitlement programs.

Even if states are required to carry out a given program, they should be given a greater amount of discretion when administering the program or service. By waiving certain federal regulations concerning the administration of federally mandated programs, states can be given the freedom to develop innovative and more efficient ways to use federal funds to achieve the objectives of the program. This is exactly what the Reagan Administration did when they created the Low-Income Opportunity Board in 1987. Under this cabinet-level interagency group, cabinet secretaries and senior welfare and anti-poverty program officials met together with governors to consider state requests for exemptions from specific federal regulations. Under this arrangement, states were able to obtain one-stop waivers from the requirements of several agencies, allowing them to proceed with innovative reforms. Unfortunately, this procedure was given less emphasis during the Bush Administration. President Clinton should re-invigorate the Board and create similar boards for such areas as housing and the environment.

ACTION #3:

Use privatization to improve the delivery of needed services.

Privatization is now universally recognized as an effective method of delivering high-quality public services at the lowest possible cost. Unfortunately, just as the NPR makes no effort to eliminate useless programs or utilize federalism options, the report also ignores the potential benefits of a comprehensive federal privatization policy. Instead, the report merely hints that certain programs would benefit either from a small degree of private sector involvement or from better management. For example, the report recommends:

- ✘ Strengthening the Tourism Policy Council, to allow the government greater authority to coordinate tourism promotion efforts;
- ✘ Improving the Helium Reserve Program, to encourage more efficient helium management; and
- ✘ Eliminating the Government Printing Office's monopoly, to allow private providers to enter the market for public document service.

Such half-hearted recommendations will do nothing to provide the benefits achieved from real privatization by other countries or by states and cities in the United States. Tourism promotion, energy production, helium management, and printing services are all inherently private sector tasks, where efficiency depends on competitive, for-profit operation driven by consumer choice.

In many cases, moreover, privatization provides the only hope of survival for many inefficient and unreformed programs, because they are starved of capital due to federal budget constraints. But in the private sector, investment flows to enterprises that can produce valuable goods and services. Consider the problems in three programs documented by the GAO:²⁷

- ✘ Many of the 337 dams built by the Bureau of Reclamation are over a half-century old and in desperate need of repair;²⁸
- ✘ The Forest Service now needs \$644 million to pay for the maintenance and reconstruction of their trails and recreation sites; and
- ✘ Within a few years, many of the Corps of Engineers' aging, \$125 billion inventory of water resources projects will have reached the end of their design life.²⁹

Privatization is probably the only remaining option for raising the capital necessary for these programs. A 1989 study by the National Commission for Employment Policy showed that state and local privatization helped programs raise capital and greatly increase worker productivity.³⁰

Despite the well-documented benefits of privatization initiatives, Vice President Gore has recently referred to privatization as "that gimmick trotted out to produce some short-term budget reductions."³¹ He should take

PROGRAMS OR SERVICES THAT COULD BE DEVOLVED TO STATE AND LOCAL GOVERNMENTS

Agriculture

- ◆ Rural economic development
- ◆ Agricultural Extension Service

Community Development

- ◆ Urban economic development
- ◆ Public housing projects
- ◆ Tourism programs

Employment Issues

- ◆ Vocational education
- ◆ Job training programs

Environment and Natural Resources

- ◆ Superfund
- ◆ Parks & forests
- ◆ Federal lands
- ◆ Pollution control programs

Infrastructure

- ◆ Highway maintenance
- ◆ Prisons
- ◆ Water projects
- ◆ Roads and bridges
- ◆ Mass transportation

Miscellaneous

- ◆ Energy assistance
- ◆ Legal aid
- ◆ Library funding

27 U.S. General Accounting Office, Transition Series, *Natural Resources Management Issues* (GAO/OCG-93-17TR), December 1992, p. 8.

28 *Ibid.*, p. 9.

29 *Ibid.*

30 "The Long Term Employment Implications of Privatization: Evidence from Selected U.S. Cities and Counties," National Commission for Employment Policy, March 1989, pp. 29-31.

31 "Vice President Gore Speech Outlining National Performance Review Initiatives," *The Reuter Transcript Report*, May 24, 1993.

time to discuss privatization with government officials in the dozens of countries, from Britain, to Czechoslovakia, to Japan, who understand why transferring assets to the private sector is so important to improve their efficiency.

METHODS OF PRIVATIZATION

There are many methods by which consumers can assume control of the allocation or delivery of a needed public service. The most popular methods of privatization include:

A) Asset Sales. This means selling all or part of a government-owned and -operated service to the private sector. Many buyers could be found for federal assets: private companies, the general public through a stock offering, or even the employees of the organization. Asset sales have been used widely in Europe and Asia to achieve dramatic improvements in efficiency. The table on the following page provides several examples of programs that could be sold off to the private sector.

B) Contracting Out. This method encourages private firms to bid competitively for public service contracts, which will be carried out in a given period of time, after which authority over the service or product reverts to public control. Contracting out is now a standard management tool in municipal government.

There are many opportunities for the federal government to introduce the same management tool. For example, several federal prison services by the federal government could be contracted out, including the construction and administration of low-security facilities, the provision of medical services to inmates, food preparation, and inmate counseling. Other federal services that could be contracted out include data processing, running military commissaries, air travel,³² building maintenance and janitorial services, and consulting or informational services.

C) Deregulation. Where federal officials deem it absolutely necessary to remain involved in the delivery of a service, private sector firms should be able to compete with the public sector to assure choice and spur competition. Deregulation is one method of accomplishing this.

D) Voucher Schemes. Vouchers retain the government's role as the funder of services—thereby assuring that the target group can afford the service—and yet permit individuals to seek the best value for money in the private sector. Housing vouchers and food stamps are two examples of vouchers funded by the federal government.

Other areas where voucher plans could be used to improve services and expand freedom of choice include education, job training programs, health care for the poor, and child care.

32 The government owns and operates 1,406 *nonmilitary* aircraft spread throughout a dozen agencies. This fleet is larger than the combined fleets of Continental, TWA, Northwest, and USAir. See Frank J. Murray, "U.S. Fleet is Lost in Airspace: Government Can't Track Its Aircraft," *The Washington Times*, May 20, 1993, A1.

PRIVATIZATION STRATEGIES

At a time when federal officials are forced by tight budgets to control costs, these privatization options offer a fresh approach. Services can be improved without an increase in the deficit, and with no additional public employees.

To implement a privatization strategy, the Administration should take several steps:

Step #1: Reinvigorate OMB's privatization office.

To be effective, privatization will need not only presidential leadership, but a forceful guiding hand within the White House. The OMB's privatization office, which lost much of its influence during the Bush Administration, needs to be strengthened. It should continue the past practice of forwarding privatization strategies for the President's consideration and personal support. In addition, it should issue an annual report, detailing privatization options for agencies and requiring details of actions taken.

Step #2: Strictly enforce Executive Order 12615, OMB Circular A-76, and any other relevant legislation to force agencies to find private sector alternatives before increasing the federal work force.

Unfortunately, these important privatization mandates have been ignored. The result has been inefficient and ineffective public service delivery. Enforcing these directives would force agencies to re-evaluate their hiring and spending decisions, leading to better service delivery.

Step #3: End all congressional prohibitions and micromanagement of the privatization process.

Since 1981, Congress has enacted over forty separate laws expressly prohibiting the privatization of government services. In some cases these laws prohibit agencies from even studying privatization options. The White House should fight to have these laws overturned.

Step #4: Encourage public employee unions to develop worker buy-out plans, and give these proposals priority in the bidding process.

Although public employee unions, such as the National Association of Letter Carriers, are among the biggest opponents of privatization, they could become its champions. Allowing unions and employee organizations to submit worker buy-out plans before alternative buyers or contractors are sought would give employees the chance to control their own fate and to gain materially from contracting out.

ASSET SALE PRIVATIZATION OPTIONS

Private Buyers

- ◆ \$200 billion direct loan portfolio
- ◆ National Weather Service
- ◆ Power Marketing Administrations
- ◆ Public lands
- ◆ Uranium Enrichment Program
- ◆ Federal buildings and real estate holdings

General Public Stock Option

- ◆ Amtrak
- ◆ Naval Petroleum Reserves

Customers or Users

- ◆ Federal lands used for grazing
- ◆ Or timber harvesting

Worker Buy-outs

- ◆ Helium Reserves
- ◆ Postal services
- ◆ Government Printing Office

Step #5: Remove all federal barriers to state and local privatization.

Regardless of how many programs federal legislators feel should or should not be privatized at the federal level, there is no reason why they should impede privatization initiatives at the state level. President Bush's Executive Order 12803, which gives the states more privatization discretion, was a step in the right direction, but further action is needed. Eliminating all wage and financing restrictions would allow states and localities to press ahead with innovative privatization tools to improve services.³³

CONCLUSION

Although Vice President Gore promised taxpayers that his National Performance Review of the government would challenge the very nature of federal programs, the report issued by the NPR falls well short of this goal. The proposals put forward in the NPR report amount to minor tinkering with the process of government, and avoid the tough actions needed to bring lasting structural reforms in what the federal government does.

If Clinton and Gore are serious about reinventing government, far bolder measures are needed. For example, they must eliminate scores of outmoded programs or activities that duplicate the functions of other programs. Adding yet another layer of bureaucracy to coordinate government activities is not real reform. In addition, they must work to divest the federal government of functions that are better provided by local levels of government. The NPR's proposal to loosen a few restrictions on federal funds is only a half-hearted step toward real federalism. And, among other genuine reforms, they must mount an aggressive privatization initiative, as governments across the globe are doing, as are municipalities in the United States. Though the NPR recognized the efficacy and efficiency of the private market, its proposals are poor imitations of real privatization.

To be sure, some of the NPR's proposals will lead to modest improvements in the way Washington functions. But these measures do not meet the basic tests of real government reform. The NPR report merely tries to polish the machinery of government; it does not reinvent it.

Scott A. Hodge
Grover M. Hermann Fellow
in Federal Budgetary Affairs

Adam Thierer
Policy Analyst

All Heritage Foundation papers are now available electronically to subscribers of "Town Hall," the conservative meeting place, and "Nexis," the on-line data retrieval service. For information about Town Hall services, please call 1-(800) 441-4142. On Nexis, The Heritage Foundation's Reports (HFRPTS) can be found in the OMNI, CURRNT, NWLTRS, and GVT group files of the NEXIS library and in the GOVT and OMNI group files of the GOVNS library.

33 See Terree P. Wasley, "A Private Sector Foundation for Roads and Bridges," in Edward L. Hudgins and Ronald D. Utt, eds., *How Privatization Can Solve America's Infrastructure Crisis* (Washington, D.C.; The Heritage Foundation, 1992).