

**REINVENTING GOVERNMENT:
RESTRUCTURING THE PUBLIC
SECTOR TO DELIVER MORE FOR LESS**

HEARING

BEFORE THE

**JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES**

ONE HUNDRED SECOND CONGRESS

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TUESDAY, MARCH 5, 1992

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The Committee met, pursuant to notice, at 10:05 a.m., in room 2200, Rayburn House Office Building, Honorable Lee H. Hamilton (vice chairman of the Committee) presiding.

Present: Representatives Hamilton and Scheuer, and Senators Bingaman, Lieberman and Roth.

Also present: Dorothy Robyn, professional staff member.

OPENING STATEMENT OF REPRESENTATIVE HAMILTON, VICE CHAIRMAN

REPRESENTATIVE HAMILTON. The meeting of the Joint Economic Committee will come to order.

The purpose of today's hearing is to examine the notion of reinventing government.

Those of us who work in Congress are painfully aware that public confidence in government is at an all-time low. Voters fiercely resist higher taxes, even as they demand that their political leaders not cut services. To be elected, candidates must increasingly run on an antigovernment platform.

Into this sea of political discontent, David Osborne and Ted Gaebler have thrown what many feel to be a lifeline. Their book, *Reinventing Government*, has become an overnight success. It is reportedly on the nightstand of at least one of the presidential contenders. *Washington Post* columnist David Broder predicted that the book will be a landmark in the debate on the future of public policy.

Questions remain, of course. Some critics see reinventing government as a cover for laying off public employees. Others question the magnitude of the claimed savings and productivity gains.

The Federal Government has been all but absent from this debate. Of the many examples of entrepreneurial government that the authors provide, only a very few are drawn from the Washington bureaucracy.

A recent *Business Week* article described the Federal Government as "largely oblivious to the wholesale restructuring occurring in many states."

To discuss these issues, we're fortunate to have with us today an outstanding panel of experts. David Osborne, author of *Reinventing Government*, is a writer and frequent advisor to state and local governments. His earlier book, *Laboratories of Democracy*, introduced many of us to the novel experiments in economic and social policy going on at the state level.

Ted Gaebler, the co-author of *Reinventing Government*, is the president of a public-sector management consulting firm in California. He was formerly the city manager of a California community, which figures prominently in the book.

William Weld is the governor of Massachusetts. He took office just over a year ago. An attorney by training, Mr. Weld was assistant attorney general in charge of the criminal division during the last several years of the Reagan Administration.

John Sharp is the Texas state comptroller, having been elected in 1990. He previously served in the Texas senate and on the Texas Railroad Commission.

We welcome all of you as panelists and before we turn to you for your testimony, I'll ask any of my colleagues if they have a comment or statement to make.

Senator Bingaman, please proceed.

SENATOR BINGAMAN. Mr. Chairman, I do not have a statement. I do look forward to the testimony. I've had a chance to look through the book and I am very impressed with many of the ideas being suggested here. I look forward to hearing more about them.

REPRESENTATIVE HAMILTON. Any other comments? Senator Lieberman?

OPENING STATEMENT OF SENATOR LIEBERMAN

SENATOR LIEBERMAN. Mr. Chairman, if it's appropriate, I want to take this opportunity to thank you for inviting me to join with you today in this hearing—a bipartisan hearing on Capitol Hill to explore new ideas, which is something that we don't do as much as we probably should, particularly in this time.

I think so often, too many of us follow our instincts of partisan biases or ideological blinders, and they keep us really from exploring the new ideas that we need to make the government work best for people.

I want to say that I'm pleased to be here this morning and to self-proclaim myself a long-time fan of Mr. Osborne's writings. I think that the fresh approach to government that he espouses, which focuses on accountability and choice, will become the center of a new national debate, because it seems to me that the old answers of the Left and the Right are just not working, and the public knows.

I feel it every time I go home to Connecticut. We're in the midst of a recession and a tax revolt at the same time. I can feel not only the

anger, but the skepticism and, in another sense, the loss of hope. People are angry at government, but, ultimately, in their hearts, they know that they need government to help them get out of the mess they're in.

And I think that that's why it's so important for us to focus on some of the good news that Mr. Osborne and Mr. Gaebler bring us, particularly from our states and municipalities around the country, about the way in which government can deliver on the promises that we make.

I must say that, particularly, as somebody who served for many years in state government and got to know Governor Weld during that time, I take some pride in the fact that we're returning, at least here this morning, to the old Brandeis notion of the states and municipalities as laboratories of democracy.

I hope that we in Congress, in responding to these laboratories of democracy, can figure out some ways to provide flexibility in federal programming, to create incentives for the states to innovate, and sometimes for us in the Federal Government just to get out of the way and let the states and localities try some new ideas.

Finally, Mr. Chairman, I'd like to stress that the basic principles that Mr. Osborne and Mr. Gaebler talk about, which are principles of the market place—consumer choice, accountability and competition—are also, though we sometimes forget, the basic underlying principles of our democracy—choice, accountability and competition.

So, though there's often an attempt to separate the economic market place from the political market place, what I want to suggest and say here this morning is that the fundamental principles underlying the work that these folks have done is also the fundamental principles underlying our democracy.

In that sense, all of us—Democrats and Republicans—ought to feel comfortable in trying to apply them to the vast apparatus and purposes of our Federal Government.

I think what we all aim to do is to spend less time being the guardians of yesterday's dogmas, and more time making government live up to its mission today and tomorrow.

And I thank you, Mr. Chairman, and this Committee for holding out this beacon of hope for all of us at a time that is a tough one.

REPRESENTATIVE HAMILTON. Thank you very much, Senator.

Let's begin now with the panel. Mr. Osborne, we'll ask you to begin and just go right down the panel, if we would. We'll hear from each one of you, then turn to questions.

Mr. Osborne, please proceed.

**STATEMENT OF DAVID OSBORNE, CO-AUTHOR, *REINVENTING
GOVERNMENT: HOW THE ENTREPRENEURIAL SPIRIT IS
TRANSFORMING THE PUBLIC SECTOR***

MR. OSBORNE. Thank you very much, Mr. Chairman. It's truly a pleasure to be here, and we are deeply grateful for your interest in this set of issues.

We have submitted written testimony. Rather than reading it, we'd like to talk briefly about the basic issues and then leave most of our time for your questions.

I think we all understand that our governments are in deep trouble in this country today. I won't go through the statistics. You're more familiar with them than we are.

What we want to talk about are really two questions. First, why we're in such deep trouble, and second, what we can do about it.

I think there are many reasons for the crisis of confidence—the fiscal crisis—and the crisis of effectiveness that our governments face today.

But we believe that there is one underlying trend that lies beneath many of these other problems. And it's simply that we're using outmoded ways of doing business in the public sector.

If you look at many of our programs and public systems, the fact is that they worked pretty well when we first created them. But that was 30 years ago, or 50 years ago, or 80 years ago, or 100 years ago, and the world has changed. But often, too often, government has not.

If you think back to the way we created public institutions during the industrial era—40 years ago, 50 years ago, 60 years ago—when we wanted to do something significant, we created large, centralized bureaucracies, staffed by civil servants, operated in a top-down fashion, using a lock-step approach, with lots of rules and regulations. They delivered standardized services to mass markets: The same kind of education to every child, the same kind of welfare check to every poor person.

They operated in a command and control fashion in which the professionals and the bureaucrats had all the control. The people they served were dependent. They were called clients, not customers. And of course, in the public service, they were monopolies. To this day, if you see competition in government, I guarantee you someone will tell you it's waste and duplication, and you ought to get rid of it to save money.

And because we used monopolies, we gradually began to take our customers for granted. I don't care how wonderful the people are who are running a monopoly, over time, the needs of their customers will change. Because change is painful for institutions, the institution often won't change—so it will no longer serve the needs of its customers.

In any case, that's roughly how government did business in the 1940s and 1950s. Sometimes it worked, sometimes it didn't. It was probably

the best way we could organize things during the industrial era. But I think we all understand that times have changed, and they've changed in dramatic ways.

The pace of change is much more rapid today. You look at technological change. It is so rapid today. Think of something like the Postal Service. When the Postal Service was created, there was only one way to communicate with somebody outside your community—send a letter. So a postal monopoly worked fine.

Today, we have telephone, telegraph, fax machines, modems, Federal Express. We have a very complex communications marketplace, and no one would imagine a public monopoly being able to manage that marketplace.

It's not just technological change; it's social change. Think of the pace of social change today: The rapid emergence of two-earner families, the day-care issue, people changing careers every five to ten years, the kind of escalation of drug use, crime and child abuse, the fact that only about a quarter of our households today fit the traditional definition of a family with two parents living at home with their children.

Then there are the expectations of the public, which have changed. We used to be a mass society. We used to watch the same three television networks. We used to read the same three news magazines.

That's no longer true. Today, we have 50 stations on most of our cable TV systems. We have 400 magazines in most of the supermarkets. And we're all used to lots of choices.

And yet, we hit the public sector and it's one-size-fits-all. So it should be no surprise that the word "choice" keeps popping up, whether we're talking about education or we're talking about welfare reform. Remember Mike Dukakis's famous welfare reform program, it was called Employment and Training Choices.

And finally, the expense of public bureaucracies has become a factor. In 1940, after the New Deal, we spent 20 percent of GNP on government in this country, government at all levels. By 1975, it was up to 35 percent, and the public basically said "no more." We had a tax revolt, which continues to this day. And the public has put a ceiling on how much we can spend on government in this country.

The point is that in today's environment, centralized, bureaucratic, top-down monopolies that deliver standardized services are not very effective. Whether you're running a business, whether you're running a no-profit, or whether you're running a public organization, if you want to be effective, you have to be lean, you have to be flexible, you have to be capable of adapting to rapid change, and you have to be responsive to your customers.

In other words, if you want to be effective, you need to be entrepreneurial rather than bureaucratic.

We would argue that this is precisely the same challenge that the private sector has faced over the last ten years. In 1982, during our last

recession, the book *In Search of Excellence* came out. It was a book on how to restructure the corporation to make it effective in a radically new environment. And since then, there has been enormous amount of debate and discussion in the private sector about how to decentralize, how to become more entrepreneurial, how to become more flexible.

Today, our argument is that in this recession, the public sector has hit the same wall, and it is time for the public sector to begin to grapple with how to restructure.

Now, the question is how you do it. Ted Gaebler and I have spent about five years looking around the country at the most innovative, entrepreneurial public institutions we could find, and we've asked a simple question. We've said: "What makes them different?" What have they changed that drives them to behave so differently than a traditional public bureaucracy? And we've come up with a list of principles. For example, they've moved from centralization to decentralization, from monopolies to competition.

What we want to do this morning is walk through those principles, very briefly. And let me just stress before we do that that these are not our ideas about how government *ought* to operate. This is not pie-in-the-sky. These are all based on what is actually happening in governments all around this country—and what has been happening for the last 10 to 12 years.

Now, I want to turn it over to Ted to walk through the first five principles, and then I will return to walk through the second five.

**STATEMENT OF TED GAEBLER, CO-AUTHOR, AND FORMER
CITY MANAGER, VISALIA, CALIFORNIA**

MR. GAEBLER. Thank you, Mr. Chairman. I appreciate the opportunity to be here and to have this kind of attention focused on the concept of reinventing government.

I spent 23 years managing cities in five different states—Pennsylvania, Maryland, Ohio, Oregon and finally, California. And my interest in managing cities was to try to deliver the best dollar that we could. I kept finding things that were not right, things that didn't seem to be appropriate, things that didn't seem to fit. They were out of sync.

So we began to experiment and Maryland began to experiment, in Ohio, and certainly, finally in California, with ways that we could do government differently. We didn't set out to reinvent government; it just seemed that things were out of sync. And so we asked our staff, asked our employees, asked the value system of the Rotarians and the Chambers of Commerce in our communities, what is it that we could do better? How can we do it better?

So it began to develop a series of things, particularly after Proposition 13 hit California in 1978. I became city manager of a town just 60 days before Proposition 13 hit, and faced a \$2.5 million budget cut,

which was 25 percent of our general fund budget at that time, immediately upon entering into office.

We began to scramble around and find out how could we do this differently. That led us into some of what we now call the reinventing government or the entrepreneurial principles.

What I discovered—and I want to make this point—is that we knew how to make changes in government. We knew how to do things better. But they wouldn't let us—they, the Rotarians; they, the ex-council people; they, the business community; they, the Northside community group.

They had frozen into their psyche, their value system, certain perceptions, a paradigm, if you will, about government. And they didn't like government that owned a baseball team on a minor league basis, as we did. They didn't like a government that would mortgage its city hall to renew its library and its auditorium, as Oakland did. They didn't think that was appropriate behavior for government to do.

And so we kept bumping up against the private-sector mindset, not so much the public-sector mindset. Frankly, one of the basic reasons that I was delighted to join with David in writing the book was not so much to affect people inside government, as to affect the people outside government, the people who care about it, the League of Women Voters, the taxpayers' groups, the people who form the value system that determine ultimately what government is allowed to do and what government isn't allowed to do.

So I'm particularly interested in the play that the book is getting among the private-sector people who will help shape and unleash the changes in government so that, in fact, demand changes at the policy-maker level.

Now, with that as a preamble, let me just run through five of the principles.

The first one is the principle of decentralization. And that's in several different ways. Decentralization occurs inside local governments, inside governments when the decisions are pushed further down. And we found that in a lot of the entrepreneurial governments, decisions were no longer being made up at the top, but people inside the organization were in fact empowered to make decisions at a lower level than they were under the old command and control hierarchical system.

That's one form of decentralization.

Obviously, the decentralization occurring from the Federal Government to state governments, to sometimes counties and ultimately, to cities is a different form of decentralization.

The whole concept is to get to a more flexible, rapid moving, close to the customer, close to the local environment—whatever, state government, county, city, school districts, special districts. It doesn't make any difference, it is a point where people can make decisions and understand the rules under which they will make those decisions.

We found basically that one of the main principles of the book is that we have good people trapped in bad systems. Now, we have 17.4 million people who work for government, nonmilitary, on a full- or part-time basis—fifteen million of those on a full-time basis. Essentially, one out of nine Americans works for government at some level.

And the question is, how can we get some sense of ownership for those people to make decisions, because they have a better educated work force than we had in the past?

The second principle, which is the one we started with in the book, is that the governments need to be catalytic. We started talking about what does that mean? What is the role of government in what we call the post-Roosevelt era?

The percentage of GNP in 1930, just prior to the Roosevelt era, was 20 percent. Americans spent 20 percent of their income on governmental services at the federal, state and local level. In 1976, that got up to 38 percent, virtually doubling during the Roosevelt era, when Americans, not bureaucrats, asked government at all levels to do more things for them.

During that Roosevelt-era mentality, we got used to saying, government can do this, and people receded from their role as citizens in providing services or helping provide services themselves.

What we did after Prop 13 was look and say, what is the role, what is the proper role of, at least, local governments and county governments? And the answer seemed to be to steer, not row, to act as a catalyst, a facilitator, a broker, not to back away from responsibilities, to make sure that services are in fact provided, but not necessarily hire a bunch a people to be the folks that produce that service.

In fact, at the local level, one of the astonishing facts we found is that Americans spend only 12 percent of their quality of life dollars on what we would call quality of life services, and 88 percent of their dollars are spent on something else.

And yet, if you ask people in city hall or in county government, what do you do, and they'll proudly thrust out their chest and say, we make sure that the quality of life services are provided for the citizens of our community.

Well, with only 12 percent of the people spending their dollars there, we think the best that local governments can do, state governments, perhaps, too, is to broker or leverage that money with the other moneys in the community.

The third principle I want to talk about is the principle of competitiveness.

I got frustrated as a manager trying to get some sense of ownership among the employees. They didn't seem to have that sense. We tried to get some energy injected back into it. Right, able, capable people came in to work for city governments, school districts, and pretty soon the system wore them down because it was a monopolistic system. We

found that there would be cries for privatization and taking government offshore, taking it into the private sector.

We found the issue was not public or private. The issue was monopoly and the kind of behavior that happens in any private-sector organization, and certainly in utilities, we've seen across the country, in government, of course.

When they operate in, if you will, a public-sector monopoly, or a private-sector monopoly, behavior shifts and people operate on a slower pace. They do things in a different way.

So, if we can inject the sense of competition inside government, we found that worked. Obviously, the Phoenix example that we wrote about in the book, where the public-sector garbage collectors began competing with the private-sector garbage collectors, and they got a sense of pride and streamlined their operation. They lowered their costs and developed a theme, and they did a number of things that made them feel like they had some sense of pride and team and ownership.

Every time governments that we looked at did that, injected that sense of competition; again, largely in public-to-public, but occasionally in a public-to-private sense, we found that that was an extremely energizing way of recapturing at no additional cost the energy that was on hold.

Many, many an organization that I went into as manager, I found there good people ready to go. All you had to do was put your foot to the pedal and you could triple output. They were there ready to go, but they didn't have the sense that they could do that, the sense of competition. Cheerfully structured competition does that. Essentially, not competition between people. We found that to be destructive in the governments that we looked at.

The fourth principle I wanted to talk about is the principle we called enterprising, or in some of the old drafts we had, which was the original entrepreneurial piece.

The concept there is that in most governmental agencies, you have a very small division called the revenue office, which is buried in the finance office, or the cabinet that has to do with finances. And it is those peoples' job to raise money. They're the only ones who are concerned about the income side. And you have about 15 million on the other side who are trained spenders of money.

The cops think that they're doing God's work, or at least society's work. The social workers, the home health-care nurses—all those people think that they're doing society's work. And by gosh, society ought to pony up the money to do it because they're doing good work.

Nobody concentrates on raising the issue of, could you tap into making money?

So I sat down with the police department about ten years ago and said, we're going to talk today about making money. They said, what? I said, we're going to talk about making money. They said, no, we don't

need to do that because we're loved by America. America loves cops. So we don't have to raise money.

I said, well, you're the best educated department we have. You've been through all the training that we have. In California, there's an agency called POST and it pays for the training. So we have extremely well-trained people. I had a police chief with a Ph.D. in management.

So I said, let's just talk about it for an hour.

In one hour, that cross-section of people in the police department came up with 52 ways of making money, only three of which were illegal.

[Laughter.]

Which, I submit, is better than most corporate board rooms, in terms of percentage.

[Laughter.]

They're doing such things as selling the software that they developed. They're doing things like renting out their jail space on drunk driving folks—\$75 a night—because the law in California says you can serve your drunk driving charge on three consecutive weekends on your first-time or second-time offense.

So rather than go down to the county jail, where it's already overcrowded, the small towns that have extra jail space, where they hardly have anybody come in, are renting that space out at \$75 a night, and then they're putting that money back into the police department.

There's dozens of creative ways. The point is not so much the money raised. It's the energy that is released when you start asking people about how they can do things to make money.

There are very exciting ways that we are not tapping. There is a sleeping giant in the public-sector employees that could be tapped in a very creative, imaginative, careful way that would be in concert with each community's and each state's value system.

Finally, I wanted to talk about the principle of being mission-driven.

In government, we have far too many rules. We have closed more barn doors after the horse has escaped than you can possibly imagine. We close barn doors like crazy, and we invent rules, and we've hired so many attorneys. We have rules for things that aren't even on the books yet. And obviously, the American public is extremely clever. You only have to watch "Hogan's Heroes" to see that. We're very clever at figuring out ways to break out of whatever rules are set.

And so, the people who set the rules cannot possibly think up all the ways that the rules can be circumvented or broken.

So, we seem to be, as we become rule-driven, bureaucracy-driven, and bureaucracy is great at inventing rules and locking them into state constitutions, locking them into charters, locking them into ordinances that never, ever get changed. We need to have some incentive for the employees to strip away the rules that are on the books, for the local

councils and the school districts and others to strip away rules that are outdated.

A very simple practice that we had when I was in the City of Visalia was, if any department wanted to bring an ordinance or resolution to the council, they had to offer two to take off the book. So we finally had some incentive where somebody would be taking rules off the books and weeding them out slowly and carefully.

I noticed that the planning department always took police rules off and the public works always took planning rules off, because nobody would ever take their own rules off.

The idea was how can we focus the employees' attention again on what the mission of government is? And there are very few governments that have spent time with their employees—some at the top, promulgating on parchment the idea of what the mission. But that has very little energy to motivate the employees.

There are some governments that have spent time saying, what is it we're all about, so the employee, faced with a difficult decision at the counter, can say, I know what the mission of this organization is. I know how to do that.

One of the ways to become mission-driven, we found, is the expenditure control budgeting system that we call in the book, the mission-driven budgeting system. That is to say, keep your eyes on the prize. Do not focus on line items. Line items focus on controlling inputs, because in government we haven't done a very good job on focusing on what the outcomes are.

It was fun several years ago to work with Deputy Secretary of Defense Bob Stone, in developing what they ultimately called the unified budget system. Again, what we called in the book, the mission-driven budgeting.

That is, to not control base commanders appropriations for billeting, housing, ordinance, and that kind of thing. But, in fact, to hold people responsible for the total dollar amount, bottom line, and let them make the decisions within the context of that.

We found that that worked extremely well with police and fire departments. You could cut their budget 10 or 15 percent, and they would still deliver the services if they had relieved themselves of the line-item controls.

So focusing on mission, trading mission and then trading accountability for line-item control on the input-side seems to be a way of getting at this.

I'd be delighted to turn back to David and let him finish the other principles, and then I'd be delighted to answer your questions.

MR. OSBORNE. You're probably all wondering, if we let up on the rules and the line items, how do we make people accountable. What happens if the managers take half the money and spend it on travel? It's your job to make sure that that doesn't happen.

The answer is that you make people accountable for outcomes rather than inputs, which is a principle we call results-oriented government.

Entrepreneurial organizations measure the results of everything they do. They measure the outcomes. And then they try to tie rewards to those outcomes.

The real leader is a city out in California called Sunnyvale in the Silicon Valley. It measures everything. It can tell you the efficiency and the effectiveness of every public service it delivers.

The city council doesn't vote on line items. The city council votes on service levels. They say, "Well, let's see, last year, we had a 75 percent customer rating of good or excellent for our parks and recreation department on our customer survey. This year, we'd like 85 percent. How much would it cost to achieve that? "

The staff gives them a number, and they decide whether to buy that outcome. Or they say, "Let's see, we have a third of our streets that have deteriorated to category C, and another third that have deteriorated to category B. This year, we'd like to bring up half of them—both of those categories—to category A, to the top level. How much would that cost?" The staff tells them how much it would cost, and they decide whether to buy that outcome.

Now, if a unit exceeds its performance targets, the manager is eligible for up to a 10 percent bonus. So you have an incentive for managers to exceed these performance targets. But when they do, the new level becomes their expected base for the next year. So the city constantly ratchets up its performance.

It increases its productivity 4 percent a year, year after year after year. In other words, in five years, they've cut the cost of delivering the same basket of services by 20 percent.

It's a very powerful tool. And this is something that's spreading to many other cities. The states of Massachusetts, Florida, Texas and Oregon are all in the process of developing performance measures for all state agencies. And I know that Senator Roth has introduced a bill, which was crafted by a former mayor of Sunnyvale, John Mercer, to introduce performance measurement at the federal level.

Now, the best thing you can do, if it's practical, if you want to tie your spending to results, is to actually give the resource to the customer and let the customer decide how to spend it. That is, let the customer decide which service provider to use, whether it's buying child care, or renting low-income housing, or getting job training, or whatever the service is, providing a voucher or some resource, perhaps cash, and letting the customer make the decision.

That approach does three things. It forces the service providers to compete to please the customers. It forces the service providers to constantly work to get their costs down and their quality up. And it gives the customers a choice of different kinds of services. They don't all

have to buy the same thing because, obviously, they don't all need the same thing.

Now, we realize that the word customer is a radical word in government. It's not heard in this building very often. But the concept is not a radical concept. It's not even a new concept. You do it all the time.

Food stamps are vouchers. Pell grants are vouchers. In fact, I would argue that the single most successful social program in the history of this country was a voucher program. It was called the GI Bill. In the 1940s, we brought a generation of men home from World War II, educated them, and turned them into the backbone of a 30-year economic boom.

Did we do it by building veterans' universities? Of course not. We gave people a voucher. We said, "Look, pick your college, pick your technical school, pick your university. We'll pay for it."

In health care, we went the traditional route. In health care, we built veterans' hospitals and assigned veterans to the hospital, and the hospital had a monopoly—it had captive customers.

If you think about the difference in quality and impact between the veterans' hospitals and the GI Bill, you begin to see the power of putting the resource into the customer's hands.

The next principle I want to talk about, we call community-owned government: The idea of empowering rather than simply serving.

I said earlier that the old model used a command and control method where the professionals and the bureaucrats had the control, and the clients were dependent upon them. This is true in public education. It's true in the way we do police work. It's true in almost all of the ways in which we deal with the poor.

And it should be no surprise that dependency—whether welfare dependency or drug dependency or alcohol dependency—has become one of our greatest social problems.

The solution which we have seen in entrepreneurial governments is to push the ownership and control of the service out of the bureaucracy into the community.

Take public housing, for example. Public housing is one of our worst, most centralized, most top-down bureaucratic systems in the country. The one thing that seems to work is when the tenants organize and demand to manage their housing themselves, and the public housing authority says yes.

Sometimes it works, sometimes it doesn't. It takes strong leadership. But when you have leadership, miracles occur.

I'm sure you're familiar with the example here in Washington, Kenilworth Parkside, behind which Kimi Gray has been the driving force. Before they started working for tenant management at Kenilworth Parkside, two kids from that development had gone to college in the history of the development. Since then, 700 have.

In the first four years of tenant management, they got 132 women off of welfare into full-time jobs. They increased rent collections by 77 percent. They brought the crime rate down from 13 a month to two a month. They cleared out the drug dealers. Their main street had been an open-air drug market. They got rid of them.

They're still poor. It's still a little shaggy. You can still tell it's public housing, even though they bought it and they own it now. But it is a safe community that works today. And the reason is because people act more responsibly when they control their own environment.

It's simple human nature.

The next principle we call anticipatory government—the idea of prevention rather than cure.

Obviously, we live in a time of rapid change. Events in Iran or Kuwait or Tokyo immediately affect us here. It's a little bit like living on a waterbed. Someone on the other edge of the bed rolls over and we feel the waves.

If you're living on a waterbed, you'd better have the capacity to anticipate change, to respond quickly, to reorient. In other words, you'd better have the capacity to do constant strategic planning.

Now, as you know, this is very difficult in a political environment. Elected leaders are driven to focus on the next election, not on a 10- or 20-year time horizon. A mayoral aide in New York City once said that in government, short-term planning is this afternoon's *New York Post*, and long-term planning is tomorrow morning's *New York Times*.

[Laughter.]

The solution is to change the incentive system, to make it more painful for elected officials to make short-term decisions than long-term decisions. It's very difficult, but there are some ways to do it.

For example, you change the accounting system. Today, the Federal Government is working to develop an equivalent to depreciation, to make it obvious that when you don't maintain a physical asset, you're actually spending money. Today's accounting systems make it look like you're saving money by not maintaining your physical assets.

Sunnyvale developed a budget system in which they project the ten-year implications of every spending decision. When the city council has to vote on a budget item, they see the ten-year consequences. They see, and the public sees and the press sees that, for example, if they defer spending for road maintenance for two years, the cost doubles. And therefore, they ought to do it today.

That information is clear. Minnesota and Nebraska have begun to do similar things. It's difficult, but you can create incentive systems in which elected officials are pressured to look at the long-term rather than the short-term.

Finally, the last principle I want to talk about we call market-oriented government.

The old model, the bureaucratic model, usually uses administrative mechanisms. We create a public bureaucracy with civil servants.

Increasingly, entrepreneurial organizations try to change the marketplace to solve problems. People in government often have what I called "programmitis." You see a problem, you must need a program. It's like ham and eggs, government and programs—they just go together.

But if you stop and think about it, it's very clear that programs are not always the most effective way to solve a problem. Sometimes restructuring the marketplace is more effective. And we do it all the time. We use the tax code, we use zoning at the local level, we change securities laws.

Let me give you just one example that I think most people can relate to.

In 1930, if any of us had wanted to buy a house, we would have put 50 percent down and paid off the mortgage in five years, because that's how banks did business.

But FDR created the Federal Housing Administration, and it pioneered something called the 20 percent downpayment, 30-year mortgage. It was a new idea. Then some of the federal quasi-public corporations created a secondary market so that banks could resell these kinds of mortgages, and the banking industry converted.

Now, we take it for granted that when we buy a house, we put 20 percent down and we pay it off over 30 years.

Now, ask yourself: Would we be in better shape today if FDR had created half a dozen low- and moderate-income housing programs, or are we in better shape today because he restructured the financial marketplace to make it possible for more people to buy houses?

I just want to close with a very quick note about the political implications of some of these ideas.

What we're really talking about is the emergence of a different way of structuring government, a different way of doing the public's business.

I believe that this is the government the American people want today. People clearly don't want government to spend more. They've made that clear ever since the tax revolt in the late 1970s. On the other hand, they clearly want government to solve their problems. They want government to solve this health-care problem, the environmental problem, the economic problem, the education problem, the crime problem. They want government to do these things.

What they want, without articulating it in so many words, is government that can do more with less.

Now, unfortunately, at the national level, neither party offers that. Historically, the Democrats have basically said, we'll do more with more. If you want more from government, it's going to cost you more. That's just the way it is.

Lately, the voters have been glad to refuse that offer.

On the other hand, the Reagan Republicans basically said, we'll do less with less. Government is the problem, and let's have less of it, and that will make things better either.

Lately, voters have begun to realize that that didn't make things better.

I think the party that first convinces the American people at the national level that it can deliver more for less will be the party that dominates American politics in the coming decades.

Thank you very much.

[The prepared statement of Mr. Osborne and Mr. Gaebler follows:]

PREPARED STATEMENT OF DAVID OSBORNE AND TED GAEBLER

As the 1980s drew to a close, Time magazine asked, on its cover: "Is Government Dead?"

As the 1990s unfold, the answer—to many Americans—appears to be "yes."

Our public schools are the worst in the developed world. Our health care system is out of control. Our courts and prisons are so overcrowded that convicted felons walk free. And many of our proudest cities and states are virtually bankrupt.

Confidence in government has fallen to record lows. By the late 1980s, only five percent of Americans surveyed said they would choose government service as their preferred career. Only 13 percent of top federal employees said they would recommend a career in public service. Nearly three out of four Americans said they believed Washington delivered less value for the dollar than it had 10 years earlier.

And then, in 1990, the bottom fell out. It was as if all our governments had hit the wall, at the same time. Our states struggled with multi-billion-dollar deficits. Our cities laid off thousands of employees. Our federal deficit ballooned toward \$400 billion.

Since the tax revolt first swept the nation in 1978, the American people have demanded, in election after election and on issue after issue, more performance for less money. And yet, during the current recession, our leaders have debated the same old options: fewer services or higher taxes.

Today, public fury alternates with apathy. We watch breathlessly as Eastern Europe overthrows the deadening hand of bureaucracy and oppression. But at home we feel impotent. Our cities succumb to mounting crime and poverty, our states are handcuffed by staggering deficits, and Washington drifts through it all like 30 square miles bounded by reality.

Yet there is hope. Slowly, quietly, far from the public spotlight, new kinds of public institutions are emerging. They are lean, decentralized, and innovative. They are flexible, adaptable, quick to learn new ways when conditions change. They use competition, customer choice and other non-bureaucratic mechanisms to get things done as creatively and effectively as possible. And they are our future.

Our thesis is simple: The kind of governments that developed during the industrial era, with their sluggish, centralized

bureaucracies, their preoccupation with rules and regulations, and their hierarchical chains of command, no longer work very well. They accomplished great things in their time, but somewhere along the line they got away from us. They became bloated, wasteful, ineffective. And when the world began to change, they failed to change with it. Hierarchical, centralized bureaucracies designed in the 1930s or 1940s simply do not function well in the rapidly-changing, information-rich, knowledge-intensive society and economy of the 1990s. They are like luxury ocean liners in an age of supersonic jets: big, cumbersome, expensive and extremely difficult to turn around. Gradually, new kinds of public institutions are taking their place.

Government is hardly leading the parade; similar transformations are taking place throughout American society. American corporations have spent the last decade making revolutionary changes: decentralizing authority, flattening hierarchies, focusing on quality, getting close to their customers—all in an effort to remain competitive in the new global marketplace. Our voluntary, non-profit organizations are alive with new initiatives. New "partnerships" blossom overnight—between business and education, between for-profits and nonprofits, between public sector and private. It is as if virtually all institutions in American life were struggling to adapt to some massive sea change—striving to become more flexible, more innovative and more entrepreneurial.

Over the past five years, as we have journeyed through the landscape of governmental change, we have sought constantly to un-

derstand the underlying trends. We have asked ourselves: What do these innovative, entrepreneurial organizations have in common? What incentives have they changed, to create such different behavior? What have they done which, if other governments did the same, would make entrepreneurship the norm and bureaucracy the exception?

The common threads were not hard to find. Most entrepreneurial governments promote competition between service providers. They empower citizens by pushing control out of the bureaucracy, into the community. They measure the performance of their agencies, focusing not on inputs but on outcomes. They are driven by their goals—their missions—not by their rules and regulations. They redefine their clients as customers and offer them choices—between schools, between training programs, between housing options. They prevent problems before they emerge, rather than simply offering services afterward. They put their energies not only into spending money, but earning it. They decentralize authority, embracing participatory management. They prefer market mechanisms to bureaucratic mechanisms. And they focus not simply on providing public services; instead, they catalyze all sectors—public, private and voluntary—into action to solve their community's problems.

We believe that these ten principles, which we describe below, are the fundamental principles behind this new form of government we see emerging: the spokes that hold together this new wheel. Together they form a coherent whole, a new model of government.

They will not solve all of our problems. But if the experience of organizations that have embraced them is any guide, they will solve the major problems we experience with bureaucratic government.

CATALYTIC GOVERNMENT: STEERING RATHER THAN ROWING

Traditional governments use their tax dollars primarily to create public bureaucracies that deliver services: public schools, public transit systems, public welfare departments. Caught between rising service demands and falling revenues, entrepreneurial governments increasingly use their resources to act as catalysts and brokers—leveraging private sector actions to solve problems.

E.S. Savas, a veteran of the Lindsay administration in New York and the Reagan administration in Washington, first introduced the metaphor of steering vs. rowing. The word "govern," he pointed out, comes from a Greek word that means "to steer." Most of us understand that government's primary role is to steer society. What we fail to understand is that when government rows as well as steering, it often loses the flexibility it needs to steer effectively, particularly in times of rapid change. To vary the metaphor: If policy makers can only "buy" services from their own bureaucracy, they become captive of sole-source, monopoly suppliers.

This becomes a problem as soon as they decide to change their strategies. When they want to move their welfare departments into the business of training, educating and placing people in jobs, for instance, they are stuck with caseworkers who have the wrong

skills. The solution is to keep policy decisions within public hands but contract with or empower separate organizations (public, private, nonprofit, or voluntary) to produce services, depending upon who can best do the job.

Consider St. Paul, Minnesota. Fifteen years ago, St. Paul was a down-at-the-heels, frostbelt city that appeared to be dying. George Latimer, elected mayor in 1975, knew he would never have the tax dollars he needed to solve St. Paul's problems. So he set out to "leverage the resources of the city"—"combining them with the much more prodigious resources of the private sector."

Latimer started with the downtown, the most visible symbol of St. Paul's malaise. He and his deputy mayor, Dick Broeker, dreamed up the idea of a private development bank, capitalized with foundation money, to catalyze investment in Lowertown, the worst downtown area. In one decade, the corporation triggered \$350 million in new investments—leveraging its own money 30 or 40 to one. By 1988 Lowertown generated nearly five times the property taxes it had ten years before.

Latimer created a second corporation to develop the nation's first downtown-wide hot water heating system; a third to develop affordable housing. He used voluntary organizations to operate recycling programs, to perform energy audits and even to manage a park. He turned garbage collection and the city's Youth Services Bureau over to the private sector. He used millions of dollars worth of volunteers' time in the city's parks, recreation centers,

libraries and health centers. And he created more partnerships with foundations than any city before or since.

By constantly catalyzing solutions outside the public sector, Latimer increased his government's impact while trimming its staff by 12 percent, keeping budget growth below the rate of inflation, and reducing the city's debt. Without massive lay-offs—in fact, while enriching the lives of public employees—he gave voters what they wanted: a government that did more but spent less.

COMMUNITY-OWNED GOVERNMENT:

EMPOWERING RATHER THAN SERVING

As they shift into a more catalytic role, entrepreneurial governments push control of many services out of the bureaucracy, into the community. Traditional public programs empower bureaucrats and professionals, not families and communities. They give the police, the doctors, the teachers and the social workers all the control, while the people they are serving have none. "Too often," says Mayor Latimer, "we create programs designed to collect clients rather than to empower communities of citizens."

When we do this, we undermine the confidence and competence of our citizens and communities. We create dependency. It should come as no surprise that welfare dependency, alcohol dependency and drug dependency are among our most severe problems.

Entrepreneurial public organizations empower families and communities to solve their own problems. They encourage the tenants of public housing to manage their own developments—as Jack

Kemp's Department of Housing and Urban Development (HUD) does. They give parents a genuine say in how their children's schools are run—as New Haven and Chicago do. They help welfare mothers become their children's first teachers, as Bill Clinton's Home Instruction Program for Preschool Youngsters (HIPHY) does in Arkansas.

It is simple common sense: families and communities are more committed, more creative, and more caring than professional service bureaucracies. (They are also cheaper.) Schools controlled at least in part by parents perform far better than schools controlled by "professionals," according to education research. Head Start centers run by parents make the greatest long-term impact on children's lives. The only gleam of hope in an otherwise bleak public housing landscape comes when residents manage or buy their own properties. Why? Because people act differently when they have some control over their own environment.

We have an inspiring example of this lesson right here in Washington. The Kenilworth-Parkside Resident Management Corporation, chaired by Kiri Gray, has transformed one of the city's worst public housing developments. The drug dealers who once used Kenilworth-Parkside as an open-air drug market are gone. Teenage pregnancies have plummeted. The crime rate has fallen from 12-15 crimes a month—one of the highest levels in the city—down to two. Some 700 residents have gone to college.

In 1986, the accounting firm Coopers & Lybrand released an audit of Kenilworth-Parkside. During the first four years of

tenant management, it reported, rent collections increased 77 percent—seven times the increase at public housing citywide. Vacancy rates fell from 18 percent—then the citywide average—down to 5.4 percent. The Resident Management Corporation helped at least 132 residents get off welfare. If these trends continued, Coopers & Lybrand concluded, the first ten years of resident management would save the city \$4.5 million.

COMPETITIVE GOVERNMENT: INJECTING

COMPETITION INTO SERVICE DELIVERY

In traditional governments, monopoly is the American way. We assume that each neighborhood should have one school, each city should have one police force, each region should have one organization driving its buses and operating its commuter trains. When costs have to be cut, we eliminate anything that smacks of duplication—assuming that consolidation will save money.

Yet we know that monopoly in the private sector protects inefficiency and inhibits change. It is one of the enduring paradoxes of American ideology that we attack private monopolies so fervently but embrace public monopolies so warmly.

Milwaukee has used competition between private health maintenance organizations (HMOs) to lower the cost of insuring its employees. Community School District 4, in East Harler, has used competition between public schools to prod every school to improve. Phoenix, a city of almost 1 million, has used competitive bidding in garbage collection, street repair, landfill operation, custodial services, security, and other areas.

Phoenix first decided to contract out garbage collection in 1978, during a fiscal crisis. It divided the city into districts and bid out one district at a time, on a long-term contract.

Surprisingly, the Public Works Department decided to compete. Three times it submitted bids, and three times it lost. But the losses forced its managers and employees to get serious about improving their operations. Management let the drivers redesign their own routes and work schedules. Together they refined their trucks and became a technology leader in the industry. Together they created labor-management committees to work out better ways to do things. And gradually they got their costs down.

In 1984, the department finally won a contract. By 1988, it had won back all five districts. "Over a 10-year period you see the costs for all the other city programs going up," says Ron Jensen, who runs the department. "Solid waste costs have gone down by 4.5 percent a year, in real, inflation-adjusted dollars."

To make sure the bidders are all competing on a level playing field, the city auditor's office examines each bid, public or private. City Auditor Jim Flanagan says he has discovered that there is no truth in the old saw that business is always more efficient than government. The important distinction is not public vs. private, it is monopoly vs. competition: "Where there's competition, you get better results, more cost-consciousness, and superior service delivery."

MISSION-DRIVEN GOVERNMENT:

TRANSFORMING RULE-DRIVEN ORGANIZATIONS

Most public organizations are driven not by their missions, but by their rules and their budgets. They have a rule for everything that could conceivably go wrong and a line item for every sub-category of spending in every unit of every department. The glue that holds public bureaucracies together, in other words, is like epoxy: it comes in two separate tubes. One holds rules, the other line items. Mix them together and you get cement.

Entrepreneurial governments dispense with both tubes. They get rid of the old rule books and dissolve the line items. They define their fundamental missions, then develop budget systems and rules that free their employees to pursue those missions.

We embrace our rules and red tape to prevent bad things from happening, of course. But those same rules prevent good things from happening. They slow government to a snail's pace. They make it impossible to respond to rapidly changing environments. They build wasted time and effort into the very fabric of the organization.

There are many examples: our civil service systems, our accounting systems, our purchasing systems. But consider just one: the line-item budget system.

Line item budgets encourage managers to waste money. If a manager does not spend his entire budget by the end of the fiscal year, three things happen: he loses the money he has saved; he gets less next year; and the budget director yells at him because he

asked for too much last year! Who in their right mind would save any money, under those circumstances? This explains the normal end-of-the-year rush to spend money. Most public managers know where they could save 10 to 15 percent, but they have no incentive to do so. Why go through the pain of transferring or laying people off, if you can't keep the money and use it for something more important?

Under the duress of Proposition 13, Fairfield, California invented a solution. A dozen of other cities have already copied it, several states are in the process of adopting their own versions, and several nations have moved in the same direction. We call it a "mission-driven budget." It makes two simple changes. First, it does away with line items, leaving one basic budget for each program or agency. This gets legislators out of the business of dictating inputs and frees managers to shift resources to where they can be most productive. (If the legislature is smart, it shifts into the business of measuring and funding outcomes—which gives it far more genuine control.) Second, it lets managers keep part or all of any money they can save, to use on new priorities. This gets them acting like they're spending their own money, rather than someone else's.

Say the police department is spending \$500,000 a year on new squad cars but really needs a new computer system. Normally the chief would not risk asking the City Council to shift the money, because he might lose the squad car line item but never get the

computer funds. Under a mission-driven budget, he could save \$200,000 a year on cars for three years running, then use the \$600,000 to buy the computer system.

Fairfield's police department illustrates the contrast between the two budget systems. Its city budget cores the new way, but it still hustles a fair number of federal grants, which core the old way. "It's amazing," says Chuck Huchel, chief of public safety. "The same people behave differently with the two streams of money. With the federal grants, we prepare a budget in advance, and we put on all the bells and whistles, all the frills—we try to anticipate everything we might need. When we get an authorization, we spend everything that's on the list, whether we need to or not. ... You don't have incentives to make the cost savings, because if you don't spend it you give it back.

"With the city money, they know that any savings they make can be applied to other programs or other equipment. So you say, 'Hey I don't actually need this to make the program work, so I'm not going to spend it.' Plus they get creative about saving money. We needed a weather covering over a gas pump, to protect people from the rain when they were gassing up their vehicles. The architectural design to make it like a gas station came to around \$30,000. We thought that was outrageous. So somebody said, 'What about these bus stop covers—the glass-enclosed ones?' We checked, and they cost \$2500. We put one of those up, and it works fine."

RESULTS-ORIENTED GOVERNMENT:

FUNDING OUTCOMES, NOT INPUTS

If we let up on the rules and line items, a legislator might ask, how do we hold the administration accountable? What happens if the managers don't perform? What if they use half their budget for travel?

The answer is simple: entrepreneurial governments shift accountability from inputs, like line items, to outcomes. They rely on information about the results (both cost and quality) of government programs to detect fraud and abuse.

Traditional public institutions focus almost exclusively on inputs. They fund schools based on how many children enroll; welfare based on how many poor people are eligible; police departments based on police estimates of manpower needed to fight crime. They pay little attention to outcomes—to results. It doesn't matter how well the children do in one school vs. another, how many poor people get off welfare into stable jobs, how much the crime rate falls or how secure the public feels. In fact, schools, welfare departments and police departments typically get more money when they fail: when children do poorly, welfare rolls swell, or the crime rate rises.

Entrepreneurial governments seek to change these incentives. They measure outcomes and reward success.

To see the full power of performance measurement, one has only to visit Sunnyvale, California, a city of 120,000 in the heart of the Silicon Valley. Sunnyvale's managers measure the quantity, quality and cost of every service they deliver.

Because the City Council has this information, it no longer votes on line items: it votes on service levels. It does not tell the Department of Public Works: "We want to spend \$1 million reconstructing highway A, \$500,000 repairing roads B, C and D, and \$250,000 filling potholes throughout the city." Instead it defines the results it wants: 80 percent of deteriorated road surfaces brought up to excellent condition; or 90 percent customer satisfaction with the parks; or 75 percent of job trainees placed in jobs.

If a unit exceeds its objectives, its manager is eligible for a bonus of up to 10 percent of his or her salary. The new service level then becomes the expected target for the next year—thus ratcheting up performance, year after year.

This system generates tremendous productivity. Between 1985 and 1990, Sunnyvale's average cost per unit of service went down 20 percent, after factoring out inflation. In 1990, when it compared its own costs to those of similar size and type cities, Sunnyvale found that it used 35-45 percent fewer people to deliver most services. Its employees were paid more, but its operating budget was still near the low end of comparable cities, and its per-capita taxes were lower than those of any comparable city in its sample.

CUSTOMER-DRIVEN GOVERNMENT: MEETING

THE NEEDS OF THE CUSTOMER, NOT THE BUREAUCRACY

The best way to tie spending to results, when practical, is to give the resources directly to the customers and let them choose their service provider, based on information about quality and

price. This forces providers (job training vendors, child care centers, landlords) to compete to offer the best deal to their customers. It also gives the customers a choice of different services.

Putting resources directly in customers' hands is hardly a radical idea. Vouchers and cash grants have been around for decades. Food stamps are vouchers. Our largest housing subsidy—the mortgage interest tax deduction—is the equivalent of a voucher. Pell grants, the primary form of federal aid to college students, are like vouchers: their recipients can use them at any accredited college or technical school.

Perhaps the best contrast between a system that funds customers and one that funds institutions occurred after World War II, when our soldiers came home. To pay for their college educations, Congress passed the GI Bill—perhaps the most successful social program in American history. Congress didn't fund GI Colleges; it let every GI pick an accredited university, college or technical school and offered to pay for it. With this act, Congress turned millions of battle-scarred young men into the educated backbone of a 30-year economic boom.

In health care, Congress took the more traditional route. It built GI hospitals, and it assigned veterans to specific hospitals. One system let customers choose their institution, hence promoting competition; the other system assigned customers to institutions that could take them for granted, because they were monopolies.

Which worked better, the GI Bill or Veterans Hospitals?

ENTERPRISING GOVERNMENT:

EARNING RATHER THAN SPENDING

In 1990, Ace-Federal Reporters Inc. offered to pay the Federal Energy Regulatory Commission (FERC) for the privilege of transcribing its hearings. Ace had discovered, over the previous eight years, that it could make whopping profits by selling transcripts to the hundreds of law firms that argued before FERC every year. When FERC rebid the contract in 1990, three of Ace's competitors offered to perform the service for free. But Ace went the other way: it volunteered to pay \$1.25 million.

FERC turned down the offer. As FERC officials explained, they couldn't keep the money. They would have to turn it over to the U.S. Treasury, and they would have to hire a clerk to set up the account and monitor the contract. To FERC, in other words, it was an expense, not a source of revenue. Who needed it?

Ace sued, of course. "I never thought I'd see the day that I'd have to sue the government to force them to take money," its lawyer mused.

This is a particularly glaring example, but similar stories unfold every day of the year, in virtually every government in America. Our budget systems drive people to spend money, not to make it. And our employees oblige. We have 15 million trained spenders in American government, but very few people who are trained to make money. In most governments, few people outside of

the finance and revenue departments even think about revenues—much less profits. But can you imagine the creativity we could turn loose if our employees thought as much about how to make money as they do about how to spend it?

Pressed hard by the tax revolts of the 1970s and '80s and the fiscal crisis of the early '90s, entrepreneurial governments are increasingly searching for non-tax revenues. They are measuring their return on investment. They are recycling their money, finding the 15 or 20 percent that can be redirected. Some are even running for-profit enterprises.

Orlando, Florida, organizes much of its work under "enterprise funds"—agencies that have to generate their own revenues. Last year Orlando collected \$100 million in taxes—but \$130 million in profits and fees. Over the past decade, Orlando's enterprise funds and public authorities have build nearly \$2.5 billion worth of facilities—an expanded airport, a new basketball arena, waste water treatment plants—with virtually no subsidy from local taxpayers.

Orlando's crowning achievement is a new City Hall, which the city built virtually for free. To avoid dipping into general revenues, Mayor Bill Frederick asked developers to compete for contract, in exchange for the right to build two office towers next door. Ground rents from the towers will pay off the city's bonds, probably within 15 years, and Orlando will get 20 percent of net rental proceeds from the office building (over a set income level), plus 20 percent of the proceeds from any sale or refinancing.

After 75 years, the entire project will revert to city ownership. By then, the city estimates, it will have collected \$700 billion in ground rents and the project will be worth \$3 billion.

ANTICIPATORY GOVERNMENT:

PREVENTION RATHER THAN CURE

Bureaucratic governments spend little time or money on prevention. Because they are programmed to think of government as service delivery, they typically wait until a problem becomes a crisis, then offer new services to those affected—the homeless on the street, communities victimized by violence, school drop-outs, drug users. Hence we spend enormous amounts treating symptoms—with more police, more courts, more jails, more housing programs, more welfare payments, and higher Medicaid outlays—while prevention strategies go begging.

Entrepreneurial governments approach problems very differently. Like Scottsdale, Arizona, they require sprinkler systems in all new buildings rather than paying for ever larger fire departments. Like New Jersey, they help people before they lose their homes rather than building more shelters. Like Suffolk County, New York, they ban non-recyclable plastic packaging rather than build new landfills.

Entrepreneurial governments also do everything they can to anticipate the future—to give themselves radar. They practice strategic planning. They use "life-cycle costing," which details not just the initial costs of programs or purchases, but their

maintenance and other long-term costs. They develop budget and accounting systems that force politicians to look at the long term implications of all spending decisions.

Sunnyvale, California, exemplifies anticipatory government. Sunnyvale's budget projects the consequences of every decision out 10 years. If the City Council is deciding whether to repair a highway, the budget shows that the cost will quadruple in three years if nothing is done. If the Council is deciding whether to buy land for a park, the budget shows what it will cost to staff and maintain the park for 10 years.

This process makes the long-term costs of decisions painfully clear to the press and the public. It has changed the behavior of the Council. "In the right environment, all of the myths about how elected officials behave have come falling down for me," says City Manager Tom Lewcock. "They don't have to be short range thinkers, they can be long range thinkers. They don't have to be people who say, 'I know this is more important than that, but we're going to spend our time on that, because I've got constituents on my back.' They don't have to be any of those things."

DECENTRALIZED GOVERNMENT: FROM HIERARCHY TO PARTICIPATION AND TEAMWORK

Sixty years ago centralized institutions were indispensable. Information technologies were primitive, communication between different locations was slow, and the public work force was relatively uneducated. We had little alternative but to bring all our public

health employees together in one hospital, all our public works employees together in one organization, all our bank regulators together in one or two huge institutions, so information could be gathered and orders dispensed efficiently. There was plenty of time for information to flow up the chain of command and decisions to flow back down.

But today information is virtually limitless, communication between remote locations is instantaneous, many public employees are well educated, and conditions change with blinding speed. There is no time to wait for information to go up the chain of command and decisions to come down. Today things work better if those laboring in public organizations—schools, public housing developments, parks, training programs—have the authority to make many of their own decisions.

Consider the experience of General W. I. (Bill) Creech, who managed the Tactical Air Command from 1978 through 1984. When Creech took over, nearly half of TAC's 3,800 planes could not fly, on any given day, because of mechanical problems. The number of training sorties flown by TAC pilots had dropped 7.8 percent a year for nearly a decade. Pilots who felt they needed 25 hours of flying time a month to stay combat ready were getting 15 or less. For every 100,000 hours flown, seven planes were crashing—many because of faulty maintenance. Pilots, mechanics and technicians were leaving TAC in droves. "The U.S. military was coming apart," Creech later confided. "It was worse than you think."

During the mid-1960s, Creech had observed Defense Secretary Robert McNamara's passion for centralization and standardization. Creech believed that passion was TAC's biggest problem. Everything was standardized, and everything was centralized: maintenance, parts, planning, scheduling. Every single repair call had to go through the centralized maintenance shop, called "Job Control"—a process that slowed maintenance down to a crawl. Moving one F-15 part through the supply system, Inc. Magazine reported, "required 243 entries on 13 forms, involving 22 people and 16 man hours for administration and record keeping."

Creech decided the cure was radical decentralization. He took the mechanics and airplanes out of the central pool and assigned them to squadrons—the 24-pilot teams, each with its own name, symbol and fierce loyalties, that had entered American folklore during WWII. He gave control over maintenance and sortie schedules to each squadron. He had the squadron insignia—the same as the pilots and mechanics now wore—painted on each plane. And he decentralized the supply operation, so spare parts were available right on the flight lines.

"It was not long before a strong camaradery grew up between pilots and their crew chiefs," according to Inc. "And pretty soon one squadron was working overtime to beat the other two squadrons in a wing, on everything from pilot performance to quality of maintenance."

When Creech left TAC, 85 percent of its planes were rated mission capable, up from 58 percent when he arrived. TAC could

launch double the number of sorties it could when Creech arrived. The elapsed time between the order of a part and its delivery had dropped from 90 to 11 minutes. The crash rate had dropped from one every 13,000 flying hours to one every 50,000.

TAC accomplished all of this with no new money, no more people, and a work force with less experience than the work force in place through the years of decline. "What was it primarily?" Creech asked. "We think it was organization. We think it was decentralization. We think it was getting authority down to the lowest level."

MARKET-ORIENTED GOVERNMENT:

LEVERAGING CHANGE THROUGH THE MARKET

If a typical American had set out to buy a home in 1930, he or she would have saved up 50 percent of the purchase price for a down payment and applied at the local bank for a five-year mortgage. That was how banks did business. During the New Deal, the Federal Housing Administration (FHA) pioneered a new form of mortgage, which required only 20 percent down and let the borrower repay over 20 (and later 30) years. Other government corporations created a secondary market, so banks could resell these new loans. And the banking industry converted.

Today we take our 30-year, 20-percent-down-payment mortgages for granted, because the federal government changed the marketplace. Ask yourself: would we be better off if the FHA had created half a dozen low- and moderate-income housing programs?

What the FHA did, in essence, was structure the marketplace to fulfill a public purpose. This is a powerful and economical way for governments to accomplish their goals. By finding the incentives that can leverage millions of decisions, government can often accomplish far more than it can by funding administrative programs.

Think of the way some states have handled litter from bottles and cans. Rather than creating elaborate and expensive recycling programs, they have simply required buyers to pay a five cent deposit on each bottle or can—to be returned when the bottle or can is returned. Anyone who lives in a state with a "bottle bill" can see the dramatic difference it makes: less broken glass in the parks, less litter on the streets, less garbage in the landfills.

American governments have always used market mechanisms to achieve their goals, to one degree or another. We have long used tax incentives to influence individual and corporate spending. We have long used zoning to shape the growth of our communities. We have always set the rules of the marketplace—and often changed them when we wanted different outcomes.

But when confronted with a problem, most people in government instinctively reach for an administrative program. They believe their job is to "run things"—not to structure a marketplace. They share an unspoken assumption with a deputy mayor of Moscow E. S. Savas met several years ago. An old guard Communist, he listened skeptically as Savas discussed the need for a variety of service delivery strategies in America's diverse and complex

cities. Finally he announced, with great finality: "You cannot have each station master making up the railroad schedule! It's got to be centralized; somebody's got to control it."

In reality, of course, cities, states and nations are not much like railroads. They don't have master schedules. They don't operate on one set of rails. They don't have one task. They are much more like markets: vast, complex aggregations of people and institutions, each constantly making decisions and each adjusting to the other's behavior based on the incentives and information available to them.

Think of the challenges facing our governments today: a health care system in crisis; an environment threatened as never before; a global economy in which American workers need dramatically better education and training throughout their careers; a changing family structure that makes quality child care virtually a necessity. Ask yourself if our governments have the capacity to solve these problems by raising taxes and spending more money. In today's fiscal and political climate, the answer is clear. Just as FDR's New Deal could not afford to build all the moderate-income housing Americans needed, our governments today cannot afford to supply all the health care, environmental protection, job training and child care we need. The very thought is inconceivable.

If this is true, it means that government has no choice but to find a market approach. Our governments must consciously use their immense leverage to structure the market, so that millions of

businesses and individuals have incentives to meet our health care, child care, job training and environmental needs. Not surprisingly, this is precisely where they are heading.

A THIRD CHOICE

Most of our leaders still tell us that there are only two ways out of our repeated public crises: we can raise taxes, or we can cut spending. For almost two decades, we have asked for a third choice. We do not want less education, fewer roads, less health care. Nor do we want higher taxes. We want better education, better roads and better health care, for the same tax dollar.

Unfortunately, we do not know how to get what we want. Ronald Reagan talked as if we could simply go into the bureaucracy with a scalpel and cut out pockets of waste, fraud and abuse. But waste in government does not come tied up in neat packages. It is marbled throughout our bureaucracies. It is embedded in the very way we do business. It is employees on idle, working at half speed—or barely working at all. It is people working hard at tasks that aren't worth doing, following regulations that should never have been written, filling out forms that should never have been invented.

Waste in government is staggering, but we cannot get at it by wading through budgets and cutting line items. As one observer put it, our governments are like fat people who must lose weight. They need to eat less and exercise more; instead, when money is tight they cut off a few fingers and toes.

To melt the fat, we must change the basic incentives that drive our governments. We must turn bureaucratic institutions into entrepreneurial institutions, ready to kill off obsolete initiatives, willing to do more with less, eager to absorb new ideas.

The lessons are there: our more entrepreneurial governments have shown us the way. Yet few of our leaders are listening. Too busy climbing the rungs to their next office, they don't have time to stop and look anew. So they remain trapped in old ways of looking at our problems, blind to solutions that lie right in front of them. This is perhaps our greatest stumbling block: the power of outdated ideas. As the great economist John Maynard Keynes once noted, the difficulty lies not so much in developing new ideas as in escaping from old ones.

The old ideas still embraced by most public leaders and political reporters assure that the important question is how much government we have—not what kind of government. Most of our leaders take the old model as a given, and either advocate more of it (liberal Democrats), or less of it (Reagan Republicans), or less of one program but more of another (moderates of both parties).

But our fundamental problem today is not too much government or too little government. We have debated that issue endlessly since the tax revolt of 1978, and it has not solved our problems. Our fundamental problem is that we have the wrong kind of government. We do not need more government or less government, we need better government. To be more precise, we need better governance.

Governance is the process by which we collectively solve our problems and meet our society's needs. Government is the instrument we use. The instrument is outdated, and the process of reinvention has begun. We do not need another New Deal, nor another Reagan Revolution. We need an American perestroika.

REPRESENTATIVE HAMILTON. Thank you very much. Now, we'll turn to a couple of the practitioners. Governor Weld, we're pleased to have you and you may proceed, sir.

**STATEMENT OF THE HONORABLE WILLIAM F. WELD, GOVERNOR,
COMMONWEALTH OF MASSACHUSETTS**

GOVERNOR WELD. Thank you very much, Mr. Chairman, and members of the Committee, and Senator Lieberman. You're doing the right thing in focusing attention on the ideas in this book.

My view is that the ideas in this book and Mr. Osborne's earlier book, *The Laboratories of Democracy*, are going to dominate the discourse over the next several years on the structure of government.

The Chairman rightly pointed out that the Feds have been largely absent from this debate in recent years, and that's a shame because the Feds are the 800-pound gorilla, in terms of those 15 million people that work full time for government.

So I think you're performing an important service in shining the spotlight on these principles.

I've been in office at the state level for only a little over a year. I did spend seven years as a Fed in the Reagan Administration. But I can't imagine that anybody could have devoted more of their energy to implementing the ten principles of David Osborne and Ted Gaebler than we have in Massachusetts.

We really do try to ask ourselves along the way, why is government performing this service? Could somebody else do it better? We've devoted a great deal of effort to privatization. I'll give you a couple of examples.

When we came into office, we had 34 hospitals to serve a census of 6,000 people in the mental health, public health, mental retardation area. They had been built to serve a census of 36,000 people. So they were operating at about 16 percent of capacity.

The taxpayers were paying for heating all these campuses during the winter, although they were largely unpopulated. We put together a learned commission, much like the federal base-closing commission in the military area, and they recommended consolidating and closing nine of these hospitals and essentially placing in private community settings a number of people who had been institutionalized in the past.

This was a step away from an institutional and bureaucratized model of delivery of government services towards what I would call a more entrepreneurial one.

We have found that not everything works. Some principles in the privatization area have emerged. I would agree with Mr. Osborne that it's not a question of having a prejudice in favor of the private sector over the public. It's simply a question of having a preference for getting the

advantages of price competition and quality competition over the disadvantages of a monopoly.

There are three conditions that in our experience you have to have present in order to have a successful privatization or contracting out of a service previously performed by government.

Number one, you have to be able to describe the service in a request for proposals. You can't just say, I want to buy health care for my prison inmates. You have to specify the availability of dental service, optometry, acute care, and the various levels of medical attention, or else you're not going to be able to define your product that you're contracting out.

Number two, it can't be something so abstruse that there's only one company that can do it. You need to have, by definition, more than one vendor bidding in response to the RFP, or you don't get the benefits of price competition.

Number three, you have to be able to monitor the performance of the vendor to make sure you're not buying a pig in a poke.

There was a fleet maintenance contract that was sent out to the private sector by a county out in California. There were somewhat loose standards in the contract. Four or five years later, they wound up in court arguing about whether the vendor had been performing.

So I do think you have to be careful about the process of privatization and not do it in too loose or half-baked a manner. But if you are careful, there are enormous advantages for the taxpayers in terms of delivering services more efficiently and, I think, often, more compassionately. Those 2,000 people who had been warehoused in institutions in Massachusetts who didn't need to be, I think, are far better off in the private vendor-based community setting where they have more freedom of movement and more dignity than they did in the institutional setting.

Another Osbornesque principle that we have tried to apply quite a lot is to introduce incentives throughout the government. The biggest budget buster we had confronting us in early 1991 was the Medicaid program. We wanted to transform that more into a managed-care program so that you wouldn't have people walking in and opening the door of the emergency room at Mass. General when they had an earache. It costs \$600 to open that door.

The way the Medicaid program was structured, the Feds would reimburse us for whatever the charges were. So there was absolutely no incentive to hold down the health-care costs in that system.

We applied for a waiver from the federal requirements. This is one of the suggestions that I'll be making as to what the Federal Government can do. And that lay aborning, I believe, over at OMB. It was approved fairly rapidly at HHS, but it lay on the table at OMB for more than a year, preventing us from introducing these salutary incentives into our system.

We have, in making our budget decisions, emphasized the notion of prevention, getting in there to keep the social problem from arising rather than spending ever more money on the so-called maintenance accounts in state government.

We pride ourselves on endeavoring to maintain the safety net for our needy citizens. We do think it's important that that safety net function as a trampoline rather than as a hammock.

You want to get people in and out so that you don't get these vicious cycles of poverty and dependence on government programs.

Another analogy is that we try to pull people into the lifeboat rather than throwing them a life preserver and leaving them in the water.

What does that mean in concrete terms? It means that we've sharply escalated spending on a lot of the prevention accounts in our budget. We spend more money on day care, more on the Women, Infants, and Children program, and more on family planning, more on AIDS prevention and education.

We're doubling and tripling the spending for some of these accounts because we think they buy you a lot more down the road.

Two other themes mentioned by the authors—empowerment and accountability—are behind the education reform efforts that are now underway in Massachusetts. At the K through 12 level, we're trying to move away from a system where the school committee hires Uncle Louie and Cousin Huey and Brother Dewey to work for the school department, and micromanages the system from the top all the way to the bottom.

We want to empower the teacher in the classroom, bring the parents more into the school room, and give the principal hire and fire authority over the teachers and then hold them accountable for the results.

I agree with David Osborne. These notions are not liberal or conservative. Mr. Osborne is a reasonable liberal Democrat. I'm a reasonably conservative Republican.

We're absolutely on the same sheet of music on this. In our education reform efforts in Massachusetts, probably my closest ally at this point is one of the most liberal Democrats in the legislature, who, for the reasons that these two men state, believes that we have to get away from the micromanagement and the bureaucratic structure of the past.

Speaking of empowerment, last year we also enacted a school choice law in Massachusetts to let parents choose which public school they want their kids to go to.

Now, some people howl that that puts pressure on the poorer schools, because the parents will put the wood to them and say, we're not going to send our kids here unless you shape up.

Well, I plead guilty to that. It does put pressure on those schools, which is exactly what I think it should do. And if that results in some of those schools shaping up, so much the better.

I agree with what's been said about empowering the customer and giving the customer the decision as to how to spend the money.

We apply that even to tax policy. We got through three tax cuts in the last year. We had the income tax that went down. We repealed the sales tax on services. We enacted a research and development tax credit.

I've proposed in the budget for this year a further decrease in the income tax, partly just to put that \$150 million back in the pocket of the taxpayers. We proposed a complete phaseout of the capital gains tax in Massachusetts, based on the amount of time that the asset is held, and we've proposed a variety of incentives for business to expand their employment in the state in the short run—a 20-percent investment tax credit if you invest in plant and equipment this year, and a 90-percent corporate tax credit if you expand your employment in Massachusetts in 1992 by a certain amount.

I think of all of these as being catalysts to the economy.

In terms of just getting a slimmer machine, we've had a little bit of success in consolidating our four police forces in Massachusetts, an idea that had been kicking around for 25 years, but that finally went through last year. The idea is to flatten the administrative structure so that you can put more officers out on the street delivering services to the customer.

One of our major initiatives last year was a regulatory reform effort in which we identified 140 regulations that didn't seem to be serving their countervailing societal objective, and slated them for demolition.

I think my favorite example is the requirement that if you have hazardous waste on your property, you have to come and get a permit from the government before you can clean it up. And there's also a provision for getting a waiver from the permit requirement and you can go get a waiver. It takes eight months to get a permit. It takes ten months to get a waiver.

There's absolutely no reason to have the whole permit apparatus in the first place. If your goal is to make the environment cleaner, you should want the owners of the land to clean up the property.

So we've proposed stipulating to the owner, go ahead, clean it up yourself, essentially privatizing the whole process. But if you do it wrong, we retain the right to come in and dig test pits and test holes and borings. If you do it wrong, we're going to make you pay triple and maybe even fine you or prosecute you if you did it wilfully wrong.

But nine landowners out of ten, who are interested in developing a piece of property, are going to be very pleased to go ahead and take the risk of doing it wrong. There's also a requirement in our proposal that the work be done by a licensed or certified hazardous waste clean-up company to guard against the dangers of do-it-yourself efforts going awry.

We're one of the four states that David mentioned who have introduced outcome measurements into our entire state budget. It's a little creaky still. In some portions of the budget, I think I would accuse us of reciting outputs more than outcomes, which is not totally desirable.

My office, for example, is supposed to field so many thousand telephone calls and answer so many pieces of constituent mail. It looks almost ridiculous when you particularize it to that extent.

But we're working towards the type of outcome measure that these authors have written about, asking not how much are we spending on street-cleaning or how many trucks we have out there, but how clean are the streets? Not how many teachers are there in the school, but what are the kids learning?

I think that is the wave of the future. And it's amazing to me that governments have been so slow to step up to the plate and say, okay, judge us by what we're doing and measure the results of our performance.

In terms of suggestions for the Federal Government, in keeping with the principle of decentralization, I would think that streamlining the waiver process for states to be able to be the laboratories of democracy and to experiment would be one good idea.

Another would be to keep an eagle-eye out on those mandates that seem to pass the Congress with some frequency. The 101st Congress passed 20 pieces of legislation with new mandates for the states that are going to cost the states about \$15 billion, mandating the cleaning up of junk yards and the training of merchant marines.

There have been 125 bills filed thus far in the 102nd Congress that would mandate additional financial burdens on the states.

I think you have to be careful about that. I introduced a resolution at the National Governors meeting last month asking the Feds to fund any mandates that are visited on the states in the future, and it passed on a voice vote, with nobody really objecting.

You can do it. We do it now in Massachusetts. We have a state law that says if we mandate any responsibility on the cities and towns, we have to pay for it, Proposition 2-1/2, and it seems to work okay in Massachusetts.

But in terms of specific, comprehensive proposals that have been put through at the federal level, I'd love to see Senator Roth's bill enacted and I'd love to see the empowerment and customer-oriented philosophy of Mr. Pinkerton in the White House applied more broadly in this town.

Thank you very much, Mr. Chairman.

[The prepared statement of The Honorable Mr. Weld follows:]

PREPARED STATEMENT OF THE HONORABLE WILLIAM F. WELD

Thank you, Mr. Chairman.

I appreciate having the opportunity this morning to testify on one of my favorite topics -- reinventing government -- and to discuss a few things that have worked for us in Massachusetts.

I'll say right off the bat that I've become an apostle of David Osborne and his theme of entrepreneurial government. I think it was Anatole France who said, "When a thing has been said and said well, have no scruple. Take it and copy it." The ten commandments of entrepreneurial government as set forth by Messrs. Osborne and Gaebler were at the heart of my inaugural remarks in January, 1991.

As I said back then, government officials in Massachusetts for too long had "mistakenly transferred dollars and decisions to a government structure where good intentions got lost in a tangle of bad administration."

Paul Cellucci, the Lieutenant Governor, and I set out not to dismantle state government in Massachusetts, but to transform it, to make it work as hard and as well as those who pay its bills.

Since then, we've found several tenets of entrepreneurial government particularly applicable. We've reintroduced market forces to state government. We've invested in prevention programs that avert more costly problems down the road. We've instituted performance-based budgeting, getting our spending decisions focused on results, not inputs. We've begun a four-

year regulatory reform effort to make sure the laws on our books conform to present-day needs. We've remembered who we are there to serve; we've remembered to focus on our customers, the taxpayers. And we've cut taxes, and will continue to do so, to spur investment and limit the unnecessary growth of government.

Not every initiative has been a success -- I agree with Tom Peters' point that David and Ted raise in their book -- some mistakes are inevitable, because if you don't fail occasionally, you're not trying hard enough to succeed.

But at the same time, I also subscribe to a slogan from one of my commissioners who fights constant battles against an entrenched bureaucracy, and that is: "Don't confuse efforts with results."

Along the way, we're always asking why? Why are we performing a function a certain way? And why are we doing it at all, if someone in the private sector can perform just as well, and more efficiently?

We've focused on privatization throughout state government, seeing whether various services provided by government can be put out for bid. I have the honor of serving as co-chair of the National Privatization Council, and I do believe that privatization should be a watchword for the '90s.

My Chief Secretary is quoted in the header to the "Competitive Government" chapter of David and Ted's new book, stating what essentially is our *mantra* of privatization: The

issue is not public versus private. The issue is competition versus monopoly.

We've learned that letting the profit motive and competition in on the process creates some real economic Darwinism that can benefit the state.

Last summer, we held a privatization conference for our Cabinet secretaries and commissioners, both to raise their consciousness about privatization and also to gin up ideas throughout state government.

And with the help of John Donahue from Harvard's Kennedy School of Government, we came away with three important criteria required for successful privatization programs:

- 1) the service involved must be one you can define distinctly in a contract;
- 2) there must be more than one vendor able to perform the service, or you lose the benefits of competition; and
- 3) you must be able to monitor -- in a cost-effective manner -- the performance of the vendor, to ensure that you are getting the intended results of the function.

One of our biggest privatization initiatives has been in health care. When we took office, we found a public health, mental health, and mental retardation system with 34 campuses to take care of just 6,200 people. The system was designed to house 35,000 patients, but was operating only at about 18 percent of capacity.

So we appointed a learned commission -- much as you in Congress have established a base-closing commission -- that came back to us and said, "Close these nine facilities, and you'll save \$60 million a year in operating costs, along with another \$144 million in capital savings."

There have been howls of protest, but by-and-large the protests are coming from state employee unions that see their ranks thinning. The big picture is that we are better serving our customer, the patients of these facilities, by placing many of them in living situations run by the private sector, always with individual treatment plans.

These include community-based residences, nursing homes, and assisted-living arrangements -- places that are less intrusive than a state institution and which provide more dignity for the individual patient. The entire process, of course, also allows us to better concentrate available resources on the institutions that we've kept open.

Privatization has also worked in another health agency, with the Department of Mental Health's Partnership Clinics. When we took office, many mental health clinics doing business with the state were private non-profits that also carried about 850 state workers performing clinical and administrative work. These workers were paid by the state, but worked in the clinics -- hence the term partnership.

We weren't wild about paying for employees who worked for

private vendors, so last spring we laid off the partnership clinic employees and then adjusted the affected vendors' contracts by 80 percent of the laid-off workers' wages. This gave the non-profits full authority over those jobs, saved the state almost \$6 million in fringe-benefit costs, and rationalized the private vendor system.

So we've had success in the human services area, and we've also privatized functions in several other areas of government. In the Department of Corrections, we privatized the health care services for the state's 9,600 prison inmates in a deal that is saving us more than \$8 million a year.

Our state also runs about 40 skating rinks, which in the past have lost roughly \$800,000 a year. This winter we took four of these rinks in the Worcester area, put their collective management out to bid, and received four proposals. The winning bidder pays the state \$36,000 in rent, employs the rink workers who previously were on the state payroll, and maintains the same type of fee structure for the hockey teams and other skaters who use the rinks. You can bet that come next winter, several more of our rinks will also be privatized.

Our Registry of Motor Vehicles reached an agreement with eight rental car agencies at Logan Airport. They've formed a Fleet Processing Center Association at the airport which enables them to process their own fleets' registrations. This removes up to 150,000 annual transactions from Registry offices, which not

only cuts down on lines but also allows the rental car agencies to get their cars on the road a lot faster.

We formed a private commission to raise funds and re-open a closed zoo north of Boston, saving the state at least \$300,000.

And our Department of Revenue has issued an RFP to privatize the processing of 1.6 million child-support payments they receive each year. While no contract has been awarded yet, the competitive process has already prompted our internal processing division to increase productivity, and the cost of processing a child-support check has dropped by 20 percent. We have also issued an RFP that will allow us to use private collection agencies to collect past-due child support, a function that the State of Wyoming privatized with great success.

We're also looking at several initiatives in the transportation field. We formed a Transportation Privatization Task Force which has just reported back to us on several options, and our Massachusetts Highway Department is about to put out to bid the operation of one of their districts. They are going to turn all of their maintenance functions -- plowing, mowing, pothole patching, the whole nine yards -- over to private hands, and expect to realize about 10 percent savings from their \$4.5 million maintenance budget for that district.

To make sure that privatization continues throughout our tenure in office, we've set up a Privatization Support Group in our Administration and Finance Secretariat -- our state

equivalent to OMB. This is essentially a clearinghouse to help various government agencies in evaluating bids, advise them on how to write and monitor contracts, and provide cross-agency coordination for shared functions that might be privatized.

The Osborne influence certainly has not been limited to privatization. We're applying many of his principles to a major reform of our Medicaid program, which serves about 600,000 people in Massachusetts. Medicaid traditionally has been one of the biggest budget-busters, and now takes a \$2.8 billion chunk out of our \$13.5 billion budget. From Fiscal '88 to Fiscal '91, our Medicaid spending grew at an average rate of 18 percent a year, more than three times higher than the growth in the caseload.

We've received a federal waiver from the HCFA to implement a managed-care system, which will put an end to the open-ended, spiraling system where we indiscriminately pay bills that come our way.

By this summer, all Medicaid recipients in Massachusetts who aren't institutionalized -- about 450,000 people -- will be on this new program, which operates much like a health maintenance organization. Under our plan, Medicaid recipients who once "pinballed" all over the health-care system will now be linked to a primary-care physician who will be required to approve all specialty services. No more \$600 emergency room visits for someone with a minor sore throat. Our program not only fosters preventive medicine and improves the quality of health care, it

also saves an awful lot of money, some \$90 million over the next 18 months, by bringing competition and accountability to the provider system.

There's a lot of talk in Massachusetts about maintaining the safety net at the level established by the prior administration. I do want to help the needy, but I also think it's crucial that the safety net act as a trampoline rather than as a hammock. You don't want to encourage people to stay in a human service grant program, you want to give them every inducement to get out.

Our budget for Fiscal '93 actually adds about \$32 million to prevention programs that save money in the long run. We're spending more money on day care, more on the Women, Infants, and Children program, more on family planning, more on AIDS prevention and education -- to head off the type of problems that are very demeaning for the people who get caught in the web of dependency, and very expensive to the taxpayer. There's no question that these prevention programs give you more bang for the buck than do the remedial programs which focus on the problem after it has already arisen. We'd much rather haul somebody into a lifeboat then throw them a life preserver and leave them in the water.

Two other themes stressed by Osborne and Gaebler, empowerment and accountability, figure heavily in our education programs. I believe that our economy in Massachusetts in the coming years is going to become considerably more information-

oriented, and geared to high-tech, knowledge-based industries, than it already is. If we shortchange our educational institutions, and don't prepare our children for the high-skill, high-wage jobs of the future, we could find ourselves out of the swim.

I am currently negotiating with our Legislature on the final details of an educational reform bill designed to squeeze some of the bureaucracy out of our public education system. Generally speaking, by using school governance councils and other methods, we're going to lessen the role of school committees in micromanaging K-through-12 education and give more power to teachers, principals and, equally important, to parents.

As part of our reform, I plan on issuing an executive order granting state employees personal leave to volunteer in their children's schools and participate in their education.

We also want to abolish the tenure system for schoolteachers. Talent, and not tenure, should determine who is leading our classrooms. Our proposal would also allow entrepreneurial school districts to take over the management of another town's schools, which can cut down on administrative costs and also reward talented superintendents with extra compensation and new challenges.

We've got two small towns west of Boston, for example, with three school districts -- and three superintendents -- costing about a quarter of a million dollars for their salaries alone.

By consolidating the management of these districts, we could devote more money to the classroom.

I don't believe that everything that works in education costs money, or that everything that costs money works. But I am committed to these major reforms, and I have pledged to increase educational spending in Massachusetts by up to \$800 million annually over the coming years if we can get these critical changes in place.

We've recently passed legislation for a voluntary School Choice plan in Massachusetts, which simultaneously rewards good schools and gives parents more options for their children. We just started the program this school year, and so far 29 school districts and about 850 children have participated, numbers we expect to grow exponentially as the program gets off the ground.

Another major area for reform has been in tax policy. I agree that often the best thing that government can do is get out of the way of economic development, but I also think we can play a little bit of a role in telling people, "Come on in, the water's fine."

Last year we repealed a sales tax on services and enacted the country's most generous tax credit for research and development. And in my State of the State remarks in January, I proposed a number of tax cuts I think are going to promote job creation in Massachusetts.

We proposed abolishing the Massachusetts capital gains tax

over a six-year period depending on how long you hold the asset. The tax is now six percent for an asset that you hold one year, so our proposal is that if you hold it for six years, it should be zero percent. If you hold it three years, it's three percent. It's a phased-in reduction, a logical extension of Secretary Jack Kemp's idea of indexing.

We already decreased the state personal income tax -- from 6.25 percent to 5.95 percent -- and I've called for another 0.2 percent drop. This measure isn't simply intended to get money back into circulation, it also is intended to say to the taxpayers, "Look, you invested in Paul Cellucci and me. We told you our mission was to downsize state government or to control its growth. We've had some success there with the help of the Legislature, thanks to you. This is payback time. We want you to participate in the success of our efforts, because they are also your efforts."

I also think that reducing the revenue available for the beast -- the beast being state government -- is one sure way of limiting spending. I'm somewhat pessimistic about being able to control the appetite of the beast, because when the money is there, a legislature, any legislature, is going to figure out a way to spend it.

We also called for several business tax credits, investment tax credits, job creation credits... huge credits companies can earn by investing in Massachusetts and creating jobs. If you

expand rapidly in Massachusetts in 1992, you can offset the dollar cost of that expansion up to 100 percent of your tax liability for '92.

I'm an unregenerate supply-sider, and I think the state is going to get the money back through the income tax, excise tax, sales tax -- all the taxes associated with productive economic activity.

Other reforms to date include consolidating four police agencies into one force. This was first recommended 26 years ago, but apathy and turf battles kept anything from being accomplished. What we've done is to eliminate overlapping police jurisdictions, establish a single command structure, and unify various components of police work so that more money can be spent on putting officers out on the street, rather than on administration.

We've also been proactive in conforming government policies to the legitimate needs of individuals and businesses in Massachusetts. After reviewing regulations in every agency of government, we filed a package of 139 regulatory reforms last fall to cut the thicket of unnecessary red tape.

That included changing regulations so that truckers didn't have to make pit stops at four different government offices to obtain various licenses and fees. And while we've maintained our environmental standards, we also have implemented a money-back guarantee system so that private developers know their projects

will get either a thumbs-up or a thumbs-down by a certain deadline.

Phase Two of our regulatory reform efforts has been industry-specific, going out to certain key industries in our state -- such as biotech/biopharmaceuticals, telecommunications, computer software -- and asking them what policies needlessly hinder their growth.

The Osborne emphasis on results over rules also lies at the heart of performance-based budgeting, which we have proposed in our Fiscal '93 budget. It's based on a handful of simple principles:

- ▶ It's a "no stone unturned" approach to budgeting, that forces managers to look hard at their operations and build their spending plans from the bottom up.
- ▶ Program budgeting provides both management flexibility and accountability by bringing service cost and service delivery face to face.
- ▶ We've initiated a four-year financial plan, the first step in helping us understand how decisions made today affect future spending.
- ▶ And we're providing the means to measure success or failure. Our mission-driven approach provides the tools for a real assessment of performance, with quantitative goals for the dollars to be spent and the services to be delivered.

Taken individually, some of the output measures in our

budget can look a little silly. In the Governor's Office, for example, we're slated to review or enact 2,200 bills, answer 204,000 phone calls and letters, and fill 2,500 slots on boards and commissions.

But what performance-based budgeting really does is shed light on exactly what taxpayers are buying with their dollars. And to tie it back to privatization, this type of budgeting also allows someone in the private sector to identify services he or she might be able to provide more efficiently. You can look at our budget and say, "You're only feeding 100 foster kids for x amount of dollars. I can do it for the same price, and clothe them, too."

Our budget for Fiscal '93 also includes \$5 million for an employee incentive pool, to reward entrepreneurial workers for good performance on the job. We're also filing legislation this spring to reform the Civil Service program, because the current system emphasizes job-protection over results. With government resources so limited, we feel our state employees should be a results-oriented workforce full of initiative, rather than a system weighted down by clock-punchers.

Finally, we're also embracing the Total Quality Management approach by focusing on the customer. The people who issue environmental permits, for example, need to stop viewing business executives as the enemy, and start recognizing them as a customer. We've recently formed a Quality Improvement Council to

implement TQM in our state government, and we'll soon have a pilot program within the Governor's Office.

I've talked for too long about what we're doing in Massachusetts, but what is of real relevance today is how what we've done might apply to the federal government.

I think the best example is one I touched on earlier, with our Medicaid reform. That hinged on a federal waiver, the flexibility to let results take precedence over process. Our waiver application lay aborning in Washington for almost a year before we received final approval. So I think that along with flexibility must come prompt response.

The federal government should also recognize the full impact of the burdens it places on states with various mandates. The 101st Congress passed legislation imposing some 20 mandates, which are expected to cost states more than \$15 billion. Some of the additional requirements, and costs, you are imposing on states include cleaning up junkyards and training merchant marines. And thus far in the 102nd Congress, more than 125 bills have been introduced that would impose additional financial burdens on states.

I proposed a resolution at last month's National Governors' Association meeting -- a resolution which won approval -- calling upon Congress to pass legislation that requires full federal financing for any laws it passes that mandate the provision of services by the states.

We already live by these rules within Massachusetts. Under our Proposition 2 1/2 reforms, the state must pay for any new mandates it imposes on cities and towns.

I'd also like to see Congress pass Senator Roth's bill calling for Federal Program Performance Standards and Goals. Using the principles espoused here today, I think we can -- and must -- make government as accountable as possible.

And finally, I'd like to associate myself fully with Jim Pinkerton's "New Paradigm" efforts. Many of the White House's initiatives are market-oriented or choice-driven -- such as school choice, earned income tax credits for child care, and empowering public housing residents by giving them ownership and tenant management opportunities.

* * * * *

Having only been in office for 14 months, I'll admit to still being something of a neophyte on the job. But I do want to emphasize that what the public clearly demands from us is a new style of government, something better than the anachronistic, big government programs of the FDR era.

Bureaucracy is a dirty word in America, and rightly so. We must transform government to a system that is innovative, proactive, anticipatory, and accountable for its actions and its costs.

Again, I thank all of you for inviting me to participate in this forum, and I'd be happy to try to address any questions you may have.

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REPRESENTATIVE HAMILTON. Thank you, Governor.

We'll conclude with the observations of Mr. Sharp, and then we'll go to questions.

Mr. Sharp, we're pleased to have you.

**STATEMENT OF THE HONORABLE JOHN SHARP, COMPTROLLER,
STATE OF TEXAS**

MR. SHARP. Thank you, Mr. Chairman, and members.

My name is John Sharp. I'm the chief financial officer of the State of Texas, the comptroller of public accounts.

A year ago, we were faced with a very difficult situation in Texas, to say the least. The legislature came to town with nearly a \$5 billion shortfall on one side, and the prospect of a personal income tax, which is not the most popular item in the State of Texas, on the other side.

Governor Richards and members of the leadership of the legislature suggested that we should do a performance audit, look at state government, see if we could find ways to cut spending.

Everybody, of course, is for cutting spending, except in their own districts. Kind of like everybody wants to go to heaven, nobody really wants to die in order to get there. And we were faced with the prospect of trying to come up with \$4 billion worth of budget reductions to do it.

We learned some very interesting things in this process. The first thing we did was contact Ted and David. I've spent some time with them and talked to them about their philosophy.

We think that what we did in an audit entitled "Breaking the Mold" was to basically put what's in this book into practice in state government.

We found over \$4 billion of savings in state government. It was a document that was endorsed, strangely enough, by both the Texas Chamber of Commerce and the Texas AFL-CIO.

It is not correct to say offhand that in order to cut budgets, you have to reduce services. As a matter of fact, the mandate that Governor Richards gave us was that we should do this. We should continue the services that Texans are getting right now, but we should find different and cheaper and more efficient ways to deliver those services.

And basically, what we found in the process was that front-line state employees have always known what was messed up about the system. And either nobody ever asked them, or when they did ask them, they didn't like the answer that they got, and so they forgot about it.

Top-down management, we believe, the truth of the matter is, was just about the ruin of state government.

One of the small things we did was to put in a little hotline for state employees to call if they had any suggestions for cleaning up state government. I frankly didn't think that anybody would call.

We got 4,000 calls in 20-something days. Easily 90 percent of the things that we recommended in that \$4 billion in savings came from state employees themselves, who have been for years disgusted with the way top management was running their particular agency.

We learned real fast that budget cutting is the hardest thing to do in government. Raising taxes is the second hardest, which is, I assume, why the second thing happens more often than the first thing.

The savings we identified, and let me just give you some examples. The whole process was about who the customers were, just what David and Ted talked about. We looked at human resources. We had 14 major agencies and 22 primary agencies delivering human services.

That's fine if you have a child with only one handicap. You know which agency to go to, whether it's the deaf commission or the blind commission, or whatever.

But if you happen to be a working mother who is single, who has a child with seven handicaps, you learn very quickly that state government was running you through seven different agencies every month in order to get those services. You didn't have time to go to work.

What's going to happen in a year or so is that all of that becomes one. The way state government will look in the future is, a mother with her child will walk into one office and someone will say, "We're going to take care of the needs of this child." Period.

We had a thousand field offices located all over the State of Texas. We're going to bring those all into one. The same thing was true in natural resources. We were forcing our businesses to go through as many as five to seven different hearings in order to get permitted for a business to come into the State of Texas for only one reason—and that reason was that a lot of consultants, a lot of attorneys, a lot of folks in Austin wanted the process to be very complicated because you make a lot of money off of fees and consulting fees and engineering fees if you keep the process complicated.

So you had businesses on one side, you had environmental groups on the other side, both totally frustrated with the process because it took years and millions of dollars to get what you wanted out of these agencies. In the future, hopefully, they'll go to one place, they'll have their set of hearings and they'll decide in at least a timely fashion who are the customers. The customers are not the folks who are making millions of dollars off of representing folks before this agency. The customers are the people who want to get the oil out of the creek or the people who want to start new businesses in the State of Texas.

The key to our deal passing, or about 62 percent of it passed, and the only reason it passed is because the media and the press let everybody in the State of Texas know about it.

By the time it all happened, and there was someone hired to kill every single one of the 195, \$4.2 billion worth of proposals that were there.

We always say that the reason most of it passed is because there just simply weren't enough lobbyists to go around and kill it all. Give it another 30 or 40 days, maybe they'd have it all.

It made sense to the public and the public had a crisis situation, and I think it's probably reasonable to assume that every now and the that occurs in Washington. One one side of the fence was the personal income tax, which is a very scary thing to most Texans, and on the other side of the fence was \$5 billion that wasn't going to reduce the services to anybody in the State of Texas.

Basically, what we did in this process was to find a lot of people who have found a lot of ways to make a lot of money off of state government, and we simply cut them out of the system.

By cutting them out of the system, we consolidated a lot of things, certainly. A lot of executive directors and agencies may lose their jobs, certainly. But not very many front-line employees. Not many social workers.

What we learned in this process is that teachers are a whole heck of a lot more important than school superintendents. My auditors are more important than the comptroller of public accounts.

The faculty member at the University of Texas is a lot more important than the chancellor and generally have a lot better ideas about how to run their institution than the top management.

When you take that bottom-up approach and implement those things, it seems that things start working well and start working a lot better.

When I was in the legislature, I loved line items too because it allowed me and the legislature to control what went on, by George, in those agencies. But it is the worst thing that we could do.

I went to the top ten agency heads in the State of Texas privately and I said, if I come to you and say, "we're going to cut your budget 10 percent, but we'll give you one lump sum appropriation and a set of standards. Run this university or system as you want." Would you prefer that or a 10-percent increase with the line items that are currently there?

Every single one said, I'll take the 10-percent cut and the lump-sum appropriation within our budget.

We're instituting a brand new accounting system in Texas that should be up and going within the next about 18 months. It's called USAS—it's the Uniform Statewide Accounting System that will probably model very similar to what Sunnyvale has. But it is going to be on a system of here's what you paid for, here's what you get. It's not simply going to be a build-on to what was there before.

We learned a couple of things in this process. One, we learned the difference between fiscal conservatives and fiscal liberals in Texas, and that is that both of them will spend every dime in the state treasury, but the conservatives will tell you they feel bad about it.

That's the main difference.

[Laughter.]

The second thing that we learned was the difference between business and government, which we do think is significant. In business, when you have to cut back on spending, you make sure your customers never know about it, that they never feel that you had to cut back.

In government, the bad managers will make sure you feel it in a hurry. They will close the Washington Monument. They will cancel summer school classes at the University of Texas or A&M. They will make you wait in line for your food stamps or AFDC programs and things like that, anything that will make you call your congressman, your comptroller, your state representative and senator to do it.

That started happening in this process. And if you attempt to process, as we did, you have to have somebody that's willing to defend it. And that's exactly what we had to do and what Governor Richards had to do. When somebody threw out a bunch of bull, we simply went there and confronted it and told them that that's what it was. The public saw exactly what was happening, saw that some top levels of bureaucracy were trying to protect their own institutions and simply sided with these reductions, as opposed to something else.

But I think the key to doing something like that is to have your auditors, when they are working, do it in secret, because as soon as someone finds out what they're going to recommend, they'll start killing it. It has to be something that becomes very widely known to the public and if the public understands it and knows it, they're going to adopt it.

In Texas—I assume like everywhere else—no one believes they're getting what they should be getting out of government and they are correct, at least in Texas.

You have to have a crisis situation that forces an either/or situation. I'm sure that Washington can qualify every now and then on a crisis situation.

But we had a difficult situation in Texas. Governor Richards explained it: When your outgo exceeds your income, your upkeep will be your downfall.

That's a down-home way to say it. The good news for us is that the crisis of the budget, which we had last time and which we're going to have again this time, is going to force the legislature and force all of us in the State of Texas to adopt even more and more streamlining within the state government.

And I feel very confident that by the time the next two or three years are over with, our state government is going to look very much different than it did before we got into reinventing government.

Thank you, Mr. Chairman.

[The prepared statement of The Honorable Mr. Sharp follows:]

PREPARED STATEMENT OF THE HONORABLE JOHN SHARP

Mr. Chairman and members of the Committee:

I appreciate the opportunity to appear before you this morning and to add my voice in support of your efforts. These hearings are an important step toward restructuring governments across the nation—from Washington to Austin.

But if you want to know the truth, Mr. Chairman, the best way to fix this government is to destroy it. Drop a bomb on Capitol Hill. Turn the place from top to bottom—and pretend that you're starting over.

Last year, we found ourselves in a similar situation down in Texas. State government was staring down the barrel of a \$4.6-billion shortfall for the current two-year budget period. And after decades of stumbling from one crisis to the next, our chances of making it through the next biennium were slim and none—and slim had just walked out the door.

As you know, my office was asked to conduct the most thorough and wide-ranging audit of state government ever undertaken in our state. Although the Texas Performance Review was prompted by the budget crisis, we considered it more than a simple one-time attempt to slash the state budget. We wanted to drop a bomb on the State Capitol there in Austin and "break the mold" of preconceived ideas that had hobbled state government and every previous study of this type.

Our goal was not just to improve the old way of doing things, but to lay the groundwork for a new and better way of doing business in Texas. We wanted to set the stage for a renewed spirit in our state, a partnership among government, industry, labor, and human services that could be described as revolutionary.

As Comptroller, I had access to more than one-hundred specialists from sixteen state agencies, as well as a number of private-sector sources. I asked those auditors to go out and build a government from scratch, as if it didn't exist.

We conducted nine public hearings across the state and setting up a toll-free hotline to take the public's suggestions. And, most important, we went after the ideas of those front-line state employees who have struggled day in and day out with the Texas bureaucracy. They know more than anyone what would help them do their jobs better, but they had never before been asked. We asked.

In our view, the Texas Performance Review was more than a simple rehashing of old ideas or minor tinkering with the existing order. We wanted to take the first steps toward building a state government that would be both customer-friendly and taxpayer-friendly.

Along the way, the Texas Legislature expressed the cautious hope that we might be able to find savings of \$200 million or so to help them defray the budget shortfall. We did. And on the second day, we began looking for more. By the time we were through, we had slashed more than \$4 billion from the shortfall, while actually expanding services. We had uncovered more than \$12 billion in certifiable savings over the next five years.

Mr. Chairman, if you want to do that here, I suggest you start by asking the people out there on the front lines, where government does its business. Listen to what they tell you—and then actually do something about it.

In Texas, we focused our attention on the outcomes, rather than the inputs, of our state government and its service. We looked at the private sector, and we saw that when they faced a budget crunch, they cut those services that would least offend their customers. For some reason, government cuts those services that *most* offend their customers. In our Performance Review, we concerned ourselves with the needs of ordinary Texans, rather than with our own outmoded state government rules and regulations.

Let me give you an example of the kind of outmoded operations we found. Our state highway department spends about \$2.7 billion a year—roughly ten percent

of the state budget—and they operate twenty-five district offices across the state. Why? It turns out that as our state's road system first grew during the 1920s and 1930s, the highway department set up a district office at every major railroad intersection. In the days when building materials were moved by rail, some people thought this system made sense. But fifty years later, it's just a waste of dollars and sense—in fact, more than \$120 million per year.

Let me give you another example of the kind of blatant waste we found. The Texas Teacher Retirement System spent more than \$270,000 in custom-built furniture for its new Austin headquarters last year, including \$50,000 in custom exercise and gym equipment—which retired school teachers are prohibited from using—and \$38,000 for a special conference table.

This type of bureaucratic abuse and disrespect for the taxpayers is why I created the "Silver Snout Award," which is awarded to those bureaucrats who—and I quote—"have their noses buried deep in the public trough and have distinguished themselves by going above and beyond the bounds of common sense and common decency in the expenditure of public money."

Now, my father will turn seventy-six at the end of this month. He receives less than \$100 a month from the annuity my mother acquired during her twenty-five years as a public school teacher in Texas. At that rate, my dad would have to live to be 107 years old just to buy the conference table in the Teacher Retirement System boardroom.

Finally, let me give you an example of the kind of tragic inefficiency we found. Single, working mothers with multiply handicapped children often had to visit as many as eleven different state agencies in their search for help. Not only did we fail to provide them service—sometimes under life-or-death circumstances—but we failed to earn their respect. And then we have gall to ask why confidence in government is eroding?

In Texas, we recommended a drastic reorganization of our state's health and human services programs. We wanted to replace the overlapping bureaucracies with "one-stop shopping" so that needy Texans can apply for a variety of services at one location, including rehabilitative services, Medicaid, and food stamps.

We laid out these recommendations and nearly one thousand others in a three-volume report entitled *Breaking the Mold: New Ways to Govern Texas*. We urged the consolidation of state agency office leases and the merger of health and human services agencies. We told senior managers to go out and buy their own plants if they wanted their offices to look like something out of *House & Garden* Magazine. And we pulled and tugged the highway department out of the dark ages and into the modern world.

What we did *not* do was hold our report out to be the final word on what state government can or should be. It was a significant first step, but only a first step toward the kind of state government the people of Texas have a right to expect.

When the smoke cleared from a special 30-day special legislative session, Texas lawmakers had adopted a respectable sixty-two percent of our original recommendations. That included \$2.4 billion in savings.

But far too many of our recommendations to streamline state government never made it through the halls of the State Capitol. Vested bureaucrats hiding in the cobwebs of obscure agencies detested our proposals. They put the squeeze on to protect their turf. And they convinced an awful lot of people in an awful lot of places that there was more to lose from some small part of the Texas Performance Review than there was to gain from making state government work for *all* Texans—for a change.

Mr. Chairman, I commend you and the members of this committee for your energy and commitment to making government a catalyst for progress and

change. And I leave you with a bit of advice gleaned from our work with the Texas Performance Review: If you want to overhaul the federal government, you have to meet certain conditions.

First, you have to be in the middle of a crisis—and I think we can all agree that you more than qualify for that condition.

Next, you have to conduct your performance study as fairly, efficiently, and as secretly as possible. In Texas, we kept the lobbyists at bay until the very last minute, and then we threw so many recommendations at them, there weren't enough lobbyists to go around.

And you have to make sure that the average citizen and taxpayer is aware of your work. There have been so many studies and so many reports through the years that most people don't know and don't care. In Texas, we made sure that everyone heard about the Performance Review, and the Legislature delayed its budget-writing session until our work was through. I can assure you that Bubba knew the scope and importance of our study by the time it was published.

Finally, Mr. Chairman, some people see a snake and form a snake committee. In the Texas Comptroller's office, when we see a snake—we kill the snake. That's why the Texas Performance Review will live on as an ongoing division within my office.

It took our state bureaucracy in Texas more than one-hundred fifty years to fall into its current condition, and we won't be able to fix it overnight. But over the coming months we intend to present a wide range of new recommendations to Texas lawmakers—recommendations that we hope will help put Texans back in charge of their lives by pushing control out of the bureaucracy and into their communities.

I will be happy to answer any questions.

REPRESENTATIVE HAMILTON. Thank you all, gentlemen. It's been a good discussion.

We'll turn now to questions. I understand Governor Weld has to leave at 11:30. Governor, we appreciate the fact that you've been here as long as you have. So, maybe, some of the questions will be directed at you initially.

I guess the question that kept occurring to me as I listened to you is the question of opposition. What are the sources of opposition—Senator Roth is joining us—to the kinds of innovative proposals you're trying to put through? Is it the politicians? Is it the civil service? Is it the unions?

Where do you get intense opposition?

GOVERNOR WELD. Generally, I would say the first line of opposition is the public employee unions. Not that all the state workers don't want to see the services delivered in a more flexible and creative way, but the management of the unions measure their success by the number of dues-paying members that they have.

For example, with the facility consolidation project that we had where we closed or consolidated nine hospitals, it was the people that worked at those hospitals who were the first line of resistance.

Very few of the parents or relatives of the patients in those hospitals were vocal opponents. Some were vocal supporters. There were a few opponents, but I would say it's the public workers.

REPRESENTATIVE HAMILTON. Mr. Gaebler said during his testimony that in putting through some of his reforms, he had a hard time persuading the business community, the local citizens and all.

Have you run into that at all, or have you found a lot of support for it among the general public?

GOVERNOR WELD. No. Our private sector is supportive.

REPRESENTATIVE HAMILTON. Very supportive?

GOVERNOR WELD. Of the idea of streamlining.

REPRESENTATIVE HAMILTON. Mr. Sharp?

MR. SHARP. We might have had a little bit of a different experience.

The most innovative ideas that we got were probably from ASME members in the State of Texas who were upset because of top-heavy leadership.

Where we got our opposition was from—every single lobbyist in the State of Texas was hired by somebody to fight every single one of the proposals that we had. They were either hired by some group that had figured out ways to get good contracts out of human resources, or somebody that had been practicing law or consulting before the air control board and had figured out a way to get good things out of the air control board. So they didn't want them to change no matter who it was, and things like that.

But we found that even the things that made a lot of sense, there was always someone that would get hired to try to kill a particular program. Even communities were doing it.

But we can't say in our experience that a lot of opposition came from public employees, because a lot of them were mad about the way their system was being run. The opposition, if it came from public employees, came from very high-paid public employees who, under our program, wound up losing their jobs. And you can't blame them for that, but it certainly didn't come from our front-line folks.

REPRESENTATIVE HAMILTON. I gather from listening to you that the ideas that Mr. Gaebler and Mr. Osborne have put forward have really caught hold, quite a bit, in a number of the states. We have two of them here—Texas and Massachusetts. I'm sure there are others.

One, is it correct that these ideas seem to be catching hold in the states? And the corollary of that, of course, is why aren't they catching hold in the Federal Government?

It could be that we're better qualified to answer that than you are.

[Laughter.]

But I'm not sure that we have the answers. Let's hear from you on it. Governor, you've been in both arenas.

GOVERNOR WELD. I've been a Fed more than I've been a Statie, Mr. Chairman.

It takes longer to turn around a dreadnought than it does a PT boat, I guess, is one part of the answer. The programs are just so far flung at the national level that it's more difficult to change the shape entirely.

We are trimming our work force at the Massachusetts level. We've gone from 74,000 down to approximately 68,000, and we aim to go a little bit further. And that may explain why we had that experience with public-sector unions.

If you made a similar change percentage-wise in the Federal Government, there would be all hell to pay.

MR. SHARP. I would bet that, without knowing a lot about the Federal Government, you have accountants either in the General Accounting Office and other places that know a million and one ways how to make the Federal Government run better. And probably have recommended a lot of those things, because that was the experience that we had in Texas.

We had a sunset commission. We had auditors that come up with these things and they make a little bitty blip in the paper, and then the opposition is so intense that you never hear from it again.

What happened in this instance is it all came at once. It came in the flurry. The press got into a pretty good feeding frenzy on it. It never would have passed had the press not done that. And all of a sudden, everyone in the State of Texas knew that there was something that made some sense, that cut a lot of money out of state government, that

sure beat the heck out of passing a \$5 billion income tax or a new tax bill.

And I suspect that the ideas are already there, that it's going to take somebody like you all to bring it up to the front, make it public, and present it as a package. And I suspect the public, when you do that, is going to say, we're for whoever is presenting this package.

REPRESENTATIVE HAMILTON. Am I correct that these ideas are being implemented in a lot of other states other than Massachusetts and Texas?

GOVERNOR WELD. Certainly Florida and Arkansas.

MR. OSBORNE. And probably Oregon as well. I think it's increasing at the state level. These changes are most intense at the local level, because the local level had a huge fiscal crisis in the late 1970s with the tax revolt.

The states are coming on board now. Minnesota is another good example.

Mr. Scheuer. Has New York been heard from?

MR. OSBORNE. No.

[Laughter.]

By and large, no. Let me comment on this question about why the Federal Government gets there last.

There's a big difference between you folks and the state and local folks. You get to borrow money. Fiscal crisis drives this nine times out of ten.

Ted mentioned that his city lost 25 percent of its operating budget overnight. That concentrates your attention. Massachusetts had a \$2 billion deficit. Texas had a \$5 billion deficit over two years.

These things drive political leaders to do things that are painful and difficult. On the other hand, at the federal level, next year you're going to borrow \$400 billion. If you adjust that for inflation, that's the whole federal budget in 1965. You're going to borrow as much as you spent in 1965.

That's a big difference.

MR. GAEBLER. A couple of other comments. In the last five or six years, I've worked as a consultant to a variety of federal agencies—the Forest Service, the Park Service, the Department of Army, the Defense Department, and most recently, GSA. There are some tremendously talented employees with some great ideas.

We were working with the Forest Service, and they had Smokey the Bear, Inc., and talked about how that could be a corporation and that thing.

The ideas are there. They seem to be stifled by the command structure that existed.

I was chatting just a year ago with the GSA people, and they indicated that part of the problem was the change in federal pay that recently raised the top levels, got rid of the compaction that they had. The people not at the top indicated that something like 70 percent—don't

hold me to these numbers—of the top leadership of GSA—and I suspect that's true throughout the federal agencies—are hanging on for three more years because they got a raise that allows them to take off in three years for retirement. Sweeten the pot. They stay for the higher rate for that period of time, and then they're gone.

Those 70 percent don't have much interest in investing energies and reinventing government. That was extremely frustrating to the people behind them who are not at that range and who are going to be there for a longer period of time.

Now, in three years, we may be ready to go because there are going to be a lot of new people. And, maybe, the time has come to concentrate on people somewhat below the top, not on the people at the top of the agencies.

REPRESENTATIVE HAMILTON. I have a lot of questions, and that's in one area. I want to turn to my colleague, Senator Bingaman, for questions. We may come back.

SENATOR BINGAMAN. Thank you very much. Let me say that I'm very impressed with a lot of what I have heard and read. But I think there's a danger in what you're saying. And that is that you have a very well thought out message that I'm afraid is in danger of being caught up in the traditional fight that we fight around here.

The message you have, as I understand it in your book, is that there is a different way of doing the public's business, and we ought to do the public's business a different way.

That is different than the argument of what the public's business is. I just wanted to make the distinction because I think that there are a lot of folks who, of course, think that the solution to our problems is for government to get out. Mr. Osborne referred to that. We just went through a decade of that philosophy, pretty much at least being espoused, not necessarily being implemented.

Let me bring it down to some specific issues.

I just finished serving on a national commission that the Congress set up at the suggestion of the National Governors Association and the President, to try to establish national standards in education and a national system of assessment.

Mr. Osborne, in your earlier comments, you said that we've had big government, top down, to try to give everyone a standardized education.

I guess, I would argue, from the little I know about it—and I'm no expert in education—we've not had standardized education in the past. Maybe, we shouldn't have that now. But we're the only major industrialized nation that doesn't have national standards that we're trying to achieve. We're the only major industrialized nation that doesn't have a national system for assessing whether we are able to achieve those standards.

One way to empower teachers and parents is to give them that a system so that they can go in and argue with their local school board.

We have a system now where accountability, to the extent that there is any in our educational system, is at the school board level. And I would argue that, at least, in the setting of standards, decentralization has not served us well, that there are some functions that properly are done at a central point.

Maybe, we could get a comment on that.

MR. OSBORNE. When we talk about decentralization, we're talking about service delivery. We're not talking about setting policy or regulating. We're not talking about the steering functions.

Your job at the federal level is largely to steer. And one of the ways you steer is by setting goals, setting standards that can be measured.

That doesn't mean you tell every school how to meet the standards. It doesn't mean you tell them how to run a school.

In this society, the problem is that we've done it backwards. We haven't set the standards and measured the performance and given the parents information about the actual results. But we have told the schools exactly how they have to run.

Now, we didn't do that from the federal level. We do that from the state and the local level. Teachers and principals are not free to change a whole lot of things about the schools that they run. Principals are often not even free to decide who to fire and who to hire.

It is remarkable how little management authority most principals have.

So what we need to do is set the standards. And let's not just look at standardized test scores, let's look at other things, too. Let's survey the customers. Let's find out how satisfied parents are with their schools. But let's set the standards and measure the performance, and then turn the schools free to improve their performance as best they can and to create a competitive system of public schools, that those that do better are rewarded and those that do worse face some negative consequences, which just don't exist in most public education today.

SENATOR BINGAMAN. Let me raise one other example that has occurred to me.

We have a problem with escalating health-care costs in this country. There seems to be different views as to how much of a role the Federal Government should take in trying to control health-care costs.

Is this a problem that can be solved by encouraging competition in the private sector? I think we've tried that. That's my perception, and that hasn't been working very well.

Is it something that can be done on a state-by-state basis? Or, is it something that the Federal Government needs to step in and wield a heavy responsibility for controlling costs?

Now, I'm not sure what the answer is to that. I haven't really sorted it out. But I have to tell you that, again, I'm not suggesting how you

deliver. I'm not suggesting that the Federal Government write a manual on how you deliver health care. But I am saying that somebody in our society has to get a handle on health-care costs. And I don't know who around is big enough to do it if the Federal Government isn't supposed to do it.

I'm sure Governor Weld has strong views on this. Maybe, some of the rest of you. But again, this gets to your issue of decentralizing. I favor decentralizing wherever it will get the job done.

In this area, maybe we've gone down the wrong road for a long time and now we're too far to turn back. But how do you get this problem fixed if you don't exercise more central authority over costs?

GOVERNOR WELD. Senator, I would agree with you on the education point. I think the national standard-setting is an exception to the application of the principle of decentralization. I think it's something that should happen.

In the medical area, if I had the answer, I wouldn't be sitting here. I'd be out making a zillion dollars by licensing the answer. My impression is that the Federal Government should not opt out, but that a Canadian-style system may be too much of a return to the Taylor-model of automation, assembly-line style industrial organization, that perhaps something closer to the German model with managed competition would be the way out of the woods.

But I am no expert.

MR. OSBORNE. I am also not an expert on health care. I happen to be married to a doctor, and she would be the first to tell you that I'm not an expert on health care.

But it's interesting. In the book, we went through an experiment in the last chapter where we said, what would happen if you applied these ten principles to three of our most intractable problems—education, health care, and crime?

So we walked through what would happen with health care. What pops out is something that looks a lot like the German model. And I think most of the experts would tell you that the Germans have the best health-care system in the world.

I think that the Federal Government does have to steer our health-care system. I don't think we can leave it to state governments.

I think it has to impose cost controls. But that doesn't mean we need a public health-care system. No one is arguing for a British-style system. In fact, the British are moving in our direction.

What we need, it seems to me, is a system in which the delivery of services remains largely in private hands. We make the market as competitive as we can, understanding that health care is not a free market. We don't have informed consumers. And normal competition will never work as it does in other markets. So managed competition is a good phrase for it.

We give consumers lots of choices of health care plans, but government plays the role of forcing all the players—the doctors, the hospitals, the consumers, the businesses, the unions—to come to the table and bargain about how we're going to control costs, because we have to get control of these costs. And that's what the West German system looks like.

REPRESENTATIVE HAMILTON. Governor, I understand that you have to leave at this point.

GOVERNOR WELD. No, I'm going to stick around, Mr. Chairman.

REPRESENTATIVE HAMILTON. Are you?

GOVERNOR WELD. If this is worth your time, it's worth my time. It's fascinating.

REPRESENTATIVE HAMILTON. Well, we very much appreciate your willingness to do that. We'll go to Congressman Scheuer and then Senator Lieberman.

REPRESENTATIVE SCHEUER. Thank you, Mr. Chairman. I want to thank you for arranging this hearing. It's been absolutely fascinating. I want to thank all the witnesses for tremendously interesting and stimulating testimony.

Mr. Osborne, you may not know it, but you were talking about the New York City education system, which is absolutely intractable and entrenched and obdurate in opposing change.

That building at 110 Livingston Street is in itself a major problem in improving education in New York. There are people who say, it's too large. There are too many people fighting change. And that if you cut it in half, you'd have a far leaner and more effective system. You could fire the A to the Ms, or the Ns to the Zs, or redheads or men who use bow ties.

Any way that you could cut it down to 50 percent of its size, you'd improve the education system in New York. And you'd want to give great authority and flexibility to both principals and teachers. And everybody seems to know this. But nothing has been done in years and years and years—25 years that I've been in government.

I don't know what the answer is. Maybe, you can help us.

One more thing I want to raise. Yes, we have vast problems of government competence, government efficiency, government cost effectiveness in Washington, as well as in my own state—about which I know something—in New York City and New York State.

So vast improvements can be made there.

I would like to ask the panel, though, whether it isn't true that more money could be and should be injected into the system. Used more effectively, used more productively, inventively, yes. But more money.

The American people have been treated, as Senator Bingaman said, to an education course for a decade, that the government is bad, it's evil, it's unnecessary, it's on your back and in your pockets. And that taxes are bad and evil.

But you know, that's really something that we ought to question. We're at a 50-year, all-time low in personal and corporate taxes in this country, right now. All time low. The OECD, the organization that represents all the developed countries—the Office of Economic Opportunity and Development—they just completed an analysis of how the developed countries of the world function tax-wise and what they demand of their own people. This report came out about two or three weeks ago.

Astonishingly, they came up with an answer that the United States is at the bottom of the pile, that all of the other developed countries but the United States spend more on education, housing, infrastructure and health care than we do.

We tie with Greece, and all of the others ask more of their people.

President Kennedy's phrase comes into mind—ask not what your government can do for you, ask what you can do for your government.

What's wrong? Why do the American people engage in tax revolts? Why do they think they're so badly treated and overtaxed when, by any comparative standard across the civilized, developed world, they're undertaxed?

Why is it that communities vote against school bond issues when they aren't able to educate their own kids? We aren't able to educate our own kids up to international standards. Our young people are not competitive in a global marketplace, especially in the field of noncollege-bound youth—the kids who are going to man the factories and the machines and the computers.

We are shamefully behind other countries in the world in our education of noncollege-bound youth. And we're not spending the money and we don't have the state-of-the-art systems of training these kids in the schools.

But, yet, our people feel that they are unfairly overburdened and abused. Why is that?

MR. SHARP. Congressman, I think it's because they don't feel that we give them—and I'm speaking from just my experiences in Texas—what they have paid for in government.

Your example is just as true in Texas as it is in New York. They didn't pay for 20 or 30 percent of a school system to be administrative costs. They paid for the school system to be teachers and people that are going to build a future for that child. They're not interested in assistant superintendents and assistant to the assistant superintendents and things like that.

I think we've lost a lot of respect from the taxpayers—again, speaking from one state's experience—simply because of the way that we run our system.

Back to your first question of, if you put more money into the system right now, would that help or hurt?

Frankly, right now it would probably hurt because the only reason that we're able to try to make sense of and consolidate things right now is because it has been forced to happen, because there's a shortage of money.

I think we have an opportunity, at least in our state now, because of the crisis situation, to finally get government to the point where people can really believe that we're spending their money the way they should be spending it.

No one in Texas believes that we're focusing enough money on education, as opposed to what we're putting in administrative buildings in school districts. People drive by administrative complexes for large school districts and are amazed at the amount of money that should be spent on teachers, and it is spent on somewhere else, probably by people who are blocking access to the system rather than helping it.

So, I think, the crisis atmosphere that we have is good in that it gives us an opportunity to try to win the faith back of folks in government.

MR. GAEBLER. Let me give some dollar answers to that.

We asked virtually all the people that we interviewed—states, cities, counties, colleges, communities, townships, federal agencies—how much of your budget is spent supporting not outdated programs, but just supporting bureaucratic ways of doing things?

And the answers ranged from a low of 16 percent to a high of 33 percent.

So it wasn't programs that were outdated, it's this following rules, it's doing things for the record, covering their fanny, doing things for the file, doing things on a repetitive basis.

And the people inside government hate it. It says, you're stupid, you're dumb. We don't trust you.

REPRESENTATIVE SCHEUER. That's especially the message to teachers.

MR. GAEBLER. Right. Absolutely. And so I think the American public are saying, we need to change the bureaucratic system, make it more flexible and all the principles that we've been talking about, so you can do things on a very different basis, and empower people to do that.

Jimmie Carter said it, Reagan said it, others have said it, governors have said it—send me to Washington, send me to Sacramento, send me to city hall. I'm going to clean things up. I'm going to control the mindless bureaucrats, and the bureaucratic machine continues on and on.

It's not because the people inside are lazy and slothful. It's because the system does not give them incentives to do the things that they would like to do. All governmental budgeting systems—federal, state and local—have a built-in incentive for public employees to spend money, not to save money. Because they, A, don't get to keep it in the department at the end of the year, B, they don't get as much next year if they don't spend it, and C, they get yelled at for asking for too much last year.

So the systems reward the wrong kinds of behavior. People inside government would do things very differently if they had systems that would do that. But it just hasn't been sexy to be promoting the internal procurement systems that are more supportive of the people on the inside—budget systems, civil service systems, those kinds of things.

The other side of the coin is that the public has so many other areas now that are competitive to government to get their services. There are about 3-1/4 million cops in the United States. But only 1.25 million of those are sworn public-sector cops. Two million, twice as many people, in the cop business doing things on a for-profit basis, and these are some very sophisticated, antiterrorist, anti-industrial espionage, anti-satellite folks; people doing police work internationally—high-paid, high-tech, high-value, relatively safe in many cases—and the police departments of the country are worried that they're going to be the back-alley garbage collectors in the next century.

So there are competitors out there. Government isn't the only place where they can get service now. So they're a little less reluctant to give money to government to do it.

REPRESENTATIVE SCHEUER. Thank you.

MR. OSBORNE. Could I also take a crack at your question?

I would argue that if you count state and local taxes and social security taxes, we're nowhere near an all-time low in tax burden. State and local taxes have gone up dramatically in the last 20 years. Social security taxes have gone up dramatically in the last ten years.

Second, if you look at what other developed countries provide to their citizens for their tax burden, most of them pay for all of higher education and all of health care. And if we did that, we'd look like one of the biggest governments in the world.

If you calculate what we do spend and then you add up all the private health-care expenditures and all private higher education expenditures and you add that, we're way up at 50 percent of GNP.

So it's not clear to me that the American people are getting leaner government, better value for the dollar, than people in Sweden, Germany, France, Great Britain, Japan and some of our other competitors.

I think the fundamental reason for the tax revolt is that there is downward pressure on the standard of living of the average American. Starting in 1973, the average income of wage-earners—I'm not talking about salary-earners, but wage-earners—began a downward trend. It's down about 20 percent now.

And in that context, people look around and they say, "Gee, I can't control the cost of buying a house and I can't control the cost of buying a car and I can't control the prices of groceries, but I sure can control the price of government."

And that's what they've done. They've basically said, "We're going to draw a line." I think that economic reality is what's behind the tax revolt, and it's not going to go away.

So your question at the moment—shouldn't we spend more—is a moot point. I don't think the American people are going to give you permission to spend more. And when you try it—just ask Governor Florio in New Jersey—when you try it, you're going to be unelected.

Personally, I am a fairly liberal Democrat. Once we get this fundamental change in government—if Governor Weld is successful in Massachusetts, for example, in fundamentally changing the nature of government, changing the incentives, changing the budget system, getting rid of this hundred-year-old civil service system, increasing productivity in the public sector by 25 percent, 50 percent—which is absolutely possible—once we get there, then he and I are going to have some fundamental disagreements about how much we spend.

I do want to spend more on education. I do want to spend more on job training. I do want to spend more on helping the poor.

There are a lot of things I'd love to see us spend more on. I'm an activist, absolutely. But you know, right now it's a moot point. And really, the reason I got interested in doing this book is because I believe the American people will not put an activist president into office ever again until they believe that that president can do things differently, that it will not be more, larger, more bureaucratic, more costly government; it will simply be a more active government.

REPRESENTATIVE SCHEUER. Thank you.

REPRESENTATIVE HAMILTON. Mr. Scheuer, let me give you an experience.

I will often begin public meetings in Indiana by asking, how many of you think that 10 percent of the federal dollar is wasted?

Every hand will go up.

I then ask, how many of you think 25 percent of the federal dollar is wasted?

And a very large percentage of the people will put their hands up.

And then I will ask, how many of you think that 50 cents of every dollar that the Federal Government spends is wasted?

Not a majority, but a substantial number of people will think that we are wasting 50 cents out of every dollar spent.

That's why you can't sell them on the idea of a tax increase. They just don't think we're spending the money that we have effectively. And until we get over that hurdle, you really can't approach this threshold question on taxes.

Senator Lieberman?

SENATOR LIEBERMAN. Thank you, Mr. Chairman. I have the same experience in Connecticut. I think you have your finger on exactly why it's happening.

I thank you for this hearing. I've been in the Senate now about three years and I must say that this is one of the most important and provocative hearings I've been to, because it's really right at the heart of not

only what government's about, but how we're going to run government in the decade ahead.

We ought to make the transcript of this hearing required reading for all of the members of Congress.

In terms of this desire of the public, as Mr. Osborne has testified, to get more for less, in some ways, regrettably, the Federal Government has been giving the people more for less, and the result is this enormous federal deficit that we have.

I think you're right, Mr. Osborne or Mr. Gaebler, whichever one of you said it, that there is the same instinct at the state level.

I spent ten years in the state legislature, to give more for less, because we all like to increase services, never cut out what has been there before, just build on top of what's been there. But nobody likes to really raise taxes. The result is deficits at the state level because they can't run deficits. Ultimately, they hit a crisis, as the Governor of Massachusetts, as certainly our state has now, and they have to respond in some way.

Truly, necessity is the mother of invention.

I think what you're saying here is to describe some of the ways in which state and local governments have responded more creatively to this public demand for better-run, more efficient government. And, hopefully, signal to us, although we still live in an unreal world—which is to say that we can run deficits—that we're doing the wrong thing, that we're being ultimately dishonest.

And I think, in a political sense, though we can still run deficits, it's pretty clear from what we're hearing from our constituents, that we're running up against a political wall that will say to us, no, we can't do that any more. We have to find better ways to do what we're doing.

And that's where I think your proposals come in.

I want to build on a question that the Chairman asked earlier, because it's central to the political practicality, how we implement some of these ideas for reinventing government.

The Chairman asked Governor Weld and Mr. Sharp about where the opposition came from for your ideas, and you each pointed to a different source. Each one of them sounds logical and right to me.

Governor Weld, you talked about the public-employee unions. Mr. Sharp, if I may interpret, I think you're talking about the constituencies that build up around any government program. A government program is created, in the first place, because somebody wanted it, or even if somebody didn't want it, a legislator wanted it. Over the years, it develops a constituency and they don't want to see it go.

Those are the natural points of opposition. We all resist change, particularly those who benefit from the status quo.

So what I want to ask each of you, because each of you has now successfully implemented at least a substantial part of your initial programs, how you overcame that opposition, both from the public

employee unions and from the constituencies that build up around the status quo of government programs.

MR. SHARP. Senator, the truth of the matter is that we probably threw so much at them at one time that they didn't have enough people to kill it off.

Literally, we had a 30-day special session of the legislature. They had 1,100 pages of recommendations. And the governor was very cooperative, as was the lieutenant governor, and the speaker called a special session of the legislature just for that.

Frankly, the most critical part about getting over that opposition was not letting them know exactly what we were doing until the day that it was made public. We had our auditors behind not just closed doors, but guarded, computer-locked doors, and kept them there the entire time. No information ever got out, because we knew as soon as it did ... we'd float a couple of rumors out just to see how fast it would take somebody to go kill it, and it was about an average of 2-1/2 minutes.

[Laughter.]

We simply kept it very quiet until the day that it all came out, and that was the day right before that session started. When it happened, it was critical that the public get into the act. And they did. And they started calling and they started writing us and saying, I'm not really sure what all this \$4 billion of savings is, but it sure beats the heck out of this \$5 billion tax.

SENATOR LIEBERMAN. Did you organize that, or did it just naturally happen—the public pressure on the legislature to act?

MR. SHARP. We organized. We had hearings around the state, and people were involved in those hearings. We didn't organize letter-writing campaigns or things like that, but we had advisory committees in different parts of the state that knew what we were doing. And we were fortunately able to get groups as diverse as the Texas chamber, the AFL-CIO, and a lot of support groups, a bunch of organizations overcame it.

The first rattle out of the box, a bunch of those groups came and blasted the program for one reason or another, and it was real critical that we start blasting back.

That's what happened, and there wasn't near so much opposition after that. It was simply putting it together as one package, keeping it as quiet as you possibly could until it came out and then just mass publicity—that probably more than anything helped sell the package. And the crisis being that you had to help overcome it to begin with.

SENATOR LIEBERMAN. Sure.

GOVERNOR WELD. I'd say three things, Senator. One, we also came with a lot at once at the same time.

Two, I think it's important that the media understand the program so that they can make sure the public at large understands it.

But third, and probably most importantly, I think you can do more in a down market than you can in an up market. People say, what breeds innovation in the computer industry?

One answer is recessions breed innovation in the computer industry. And the same is true in government, I think.

SENATOR LIEBERMAN. Mr. Chairman, with your permission, I have one more question I'd like to ask Mr. Osborne and Mr. Gaebler. Did you want to respond to that earlier question?

MR. GAEBLER. If I can, just a brief comment.

Again, I indicated that I thought it was the people who are forming the value system around government, the people who influence decisionmakers at the county, city and state level.

And what we find is that 90 percent of what we know as Americans, we've learned since high school. We've learned now about red meat is good or not good for us, and smoking and PCs and cellular phones. We've learned all those kinds of things since high school.

What we need is somebody to take the old paradigm about government—thou shalt do this and thou shalt not do that, government can't make a profit, all those kinds of things that the American public has in their mindset, and blow that old information out, replace it with the new kinds of things.

Once we do that, then they begin to not only accept innovation that occurs from inside the city halls and the county governments, but they begin to demand it and say, why aren't you doing things on a different basis? Why are you still doing things in a bureaucratic way?

As soon as that happens, the energy level will shift. People on the inside will change because they'll hear that wording inside the community and that behavior will be rewarded.

SENATOR LIEBERMAN. I think that's a very good point. When you think about it, we have a whole series of government programs that are now more than 60 years old; some are, let's say, 30 years old.

We're asking something unreasonable of those government programs, which is to say that they remain relevant and vital and efficient for that period of time, when the natural instinct or inclination of institutions is to become encrusted and bureaucratic over that period of time.

Mr. Osborne, as we've suggested here, most of your writing and the book you've now done with Mr. Gaebler, is focused on the reinventions of government that have occurred at the state and local level. And they also focus on management of budgetary processes.

I wonder, speaking to this joint congressional committee, whether you could itemize for us, one, two or three ideas that you think we could adopt legislatively at the federal level to bring about some of the reinvention of government here.

MR. OSBORNE. Sure. I'd be happy to.

Let me just preface it with a quick comment about public employee unions. I don't think public employee unions have to be the greatest obstacle. In fact, I don't think they are the greatest obstacle to these kinds of changes.

Much of what we're talking about the unions actually like. There are a couple of pieces of it, like having to compete with the private sector, that they will always fight.

But AFSCME has been very friendly and very eager to talk about these ideas. And it's all a question of how you approach the unions, whether you're willing to make them a partner in making changes, or whether you want to make them the enemy and take it out of their hides.

I think it's very important to try to make them a partner, to protect the interests of public employees, to use attrition rather than layoffs, and so on and so forth.

To your question, I think the single most important thing you could do is to change the federal budget system. The line-item budget system, in which an agency has to spend every penny of every line item by the end of the fiscal year or face losing it and getting less next year, gives every one of your federal managers an incentive to waste money.

They know where there's 10 percent or 15 percent of obsolete money, of waste, of things that they could shut down, if they could keep some of the money and do what they want with it, do the right thing with it. But there's no incentive.

It's painful to lay people off. It's painful to make changes. So why do it if there's no incentive?

If you change that, if you go to a budget system of the kind that Ted used in Visalia, that Governor Weld is trying to install in Massachusetts, that John Sharp and the other Democrats in Texas have installed for some of their departments, if you go to a budget system where each unit that has its own mission—I'm not saying one number for HHS; there might be 50 numbers for HHS; there might be 50 different units in HHS that have their own mission—but each unit that has its own mission ought to have one budget number. And you ought to define the outcomes you want from the work of that organization and measure those outcome. And then give them rewards if they exceed their targets and penalties if they don't exceed their targets.

It is, of course, much more complicated than this, and we go into it in great detail in the book.

The point is, it can be done. The final change necessary is to let an agency keep half of what it doesn't spend so that suddenly it has an incentive to save money rather than spend money. This totally changes the outlook of managers.

SENATOR LIEBERMAN. Keep it and carry it over for the next year.

MR. OSBORNE. Exactly, and use it for what they want to use it for. If they want to give bonuses to their best employees, fine. If they want to buy computers with it, fine. Training, fine. They're the managers.

Fairfield, California invented a budget system after Proposition 13. There's a police chief out there who told me that they get most of their money from the city the new way. It comes in a lump sum. And they are incredibly creative with that money. They don't waste a dime because they always have lots of new things they want to do. So they're always phasing out old things, and always trying to become more productive. But they also apply for a lot of federal grants. And when they apply for the federal grants, they list all the money—it's a line-item approach. You list all the different things that you might need and put on all the bells and whistles, in case you need them. And then if you get the grant, you spend it all because if you don't, you have to give it back.

So he said, "It's the funniest thing. I watch the exact same people being creative with the city money and wasting the hell out of the federal money—the exact same people!"

So cut federal spending. Cut all administrative accounts by 3 percent a year, but give them budget flexibility and they'll be happy as clams, as John Sharp said.

Second, change your civil service system. The civil service system was invented in 1883 to perform some very important tasks. It was very successful. But it's become a straightjacket. The reforms in 1978 were just a partial step.

You have a model. The reforms in 1978 allowed some pilot projects, some demonstrations. One of them was out in California at two Navy bases. It's called the China Lake Experiment. It was a great success. The model is there.

You need a modern personnel system because, again, it's a matter of having flexibility and incentives.

Let's say you wanted to take advantage of your 10 percent federal attrition rate per year, the federal attrition rate. What if you wanted to downsize by taking advantage of that?

With your current budget and civil service system, you can't do it because you can't move people around and retrain them and give them other jobs. And it's not always the right people who leave. It's not always the deadwood that leaves. Sometimes it's the best people, and you need to replace them.

So your managers can't take advantage of attrition because they have this straightjacket called the civil service system.

REPRESENTATIVE HAMILTON. Managers can't manage.

MR. OSBORNE. Managers can't manage. Absolutely.

I would also put in a sunset law. Every federal program—let's say every seven years—ought to have to be reauthorized.

You're spending a billion dollars a year on the Rural Electrification Administration. That administration was incredibly successful; it

achieved its goal by 1960. It electrified rural America by 1960. And now what it does, it gives low-interest loans to telecommunications firms. But no one questions it. It doesn't have to pass sunset review. It doesn't have to be reauthorized.

Those are just three ideas.

SENATOR LIEBERMAN. I appreciate those. Those are very important, very substantial answers.

I have one final question that I can't resist asking my friend and neighbor.

Bill Weld, among the states that you mentioned, where these ideas for reinventing government are being implemented is Arkansas.

Can you recall the name of the governor of Arkansas?

[Laughter.]

Thank you all. Thank you, Mr. Chairman.

REPRESENTATIVE HAMILTON. Thank you, Senator Lieberman.

GOVERNOR WELD. Mr. Chairman, could I just say one thing to, perhaps, square the circle on a point that was raised earlier?

REPRESENTATIVE HAMILTON. Certainly.

GOVERNOR WELD. I am, as I mentioned, something of a fiscal conservative. When I think of this overall size of budgets, I often think of the line in "Our Town"—the play by Thornton Wilder—where the girl, Alice, asks her mother, "Mother, am I pretty?" And the mother answers, "Well, you're pretty enough for all normal purposes."

I tend to think there's enough money in our budget in Massachusetts and probably down here as well for all normal governmental purposes. I think the frustration on the part of the voters, which Congressman Scheuer referred to earlier, stems not from the level of spending of the budget, but from where the money is being spent and what it's being misspent on.

I think that there may be more common ground between my friend, Mr. Osborne, and myself than he thinks, because I, too, would like to spend more money on prevention accounts, on investment accounts, on programs such as education, which are going to secure our place in the quality of life of our citizens in the 21st century. It's just that I would like to spend a lot less money on some of the maintenance programs, some of the entitlement programs that have really grown like Topsy, and we've lost control of them.

REPRESENTATIVE HAMILTON. Senator Roth?

SENATOR ROTH. Thank you, Mr. Chairman. I apologize for being late. I got up early this morning to catch a train from Wilmington. Unfortunately, my St. Bernard decided to romp over the hill, so I got my physical exercise rather than my mental.

But I did want to express my appreciation and interest in exactly what's taking place here this morning.

As I understand what you're saying, we have to get rid of the budget line item, as we now currently pursue and move to a performance base.

That once you move to a performance base, you can then have more flexibility on the part of your managers because you will be judging them not by whether they're following all the rules and requirements—we have 864 of them, for example, in the Pentagon—but instead, you say, produce a weapon in so many years at such and such a cost, and it's up to you how you do it. Or, if it's schools, do the same thing.

Now, I appreciate the fact that I think two of you endorsed my performance-based budgeting legislation. And I'm proud and pleased to say that we have considerable bipartisan support.

My concern is how we move forward. We can talk here in Washington for the next six years and do nothing. The problem is that the American people see government as the problem rather than the remedy.

And so, I appreciate the support on the performance, but I think we have to move beyond that. The question is how do we do that? How do we get the flexibility? How do we eliminate all the red tape? How do we streamline, down-size?

And I agree with, I think, you, Mr. Osborne, that you don't have to fire people, and we shouldn't. There are other means, either through attrition or, if necessary, I have an early out that gives incentives to people to retire early so that you can slim down.

But fundamentally, the problem has been that you have a triangle that opposes any change. And let me emphasize, I think we have very competent people in the so-called bureaucracy. You have them come to your office and work where there's considerable flexibility. They're just as creative and innovative as any group could be.

So it's the system that's bad.

But one of the questions I have is, how can we really move ahead? Now, one suggestion I have is to go to the so-called old Hoover Commission and get a commission with authority to make recommendations. But if we're going to do that, we have to have some teeth in it. And the problem is that there's no way of implementing these studies. Most of them end up on the bookshelf.

Now, what I'm suggesting, and I'd like your comments on, is that if we could get a Hoover Commission with some teeth in it, and here's how I would get the teeth in it. I would use the base-closing measures that Dick Arney in the House and I in the Senate proposed, that you make your recommendations, which go to the President. He can approve or disapprove. If he disapproves, he can send it back. But if he approves, then he submits it to the Congress and the Congress be required by the legislation to vote up or down these reforms.

You have enough reforms in the package so that there is some national interest. Do you see this as a means of moving forward with the kinds of reforms you're talking about?

GOVERNOR WELD. Senator, I think that's a real hot idea. We've used the base-closing model in our state to close unneeded public health and mental health facilities.

I'll give you an off-the-wall suggestion for an even quicker way to force this change. You give the President a line-item veto. You elect a president who pledges to level-fund the federal budget for four years so that inflation will begin to eat up the deficit, and that will put you automatically in the down market where reforms come easier than they do when times are flush.

SENATOR ROTH. As you well know, when we have divided government and reforms run into great opposition, you have, as I say, this triangle where you have, on a particular program, those in the Executive Branch that administer it, they're opposed to change because they're fearful of their jobs. You have their counterpart here on the committees who have jurisdiction over that program. And then, of course, they have their group back home.

So, any time we try to change it to a line-item veto, as it has come up many times, I always support it. But we can't get it through.

It does seem to me that if we have enough support for reform, we have a possibility of getting legislation through because there could be bipartisan support. As I say, on the performance budget, I've had bipartisan support. I think a lot of Democrats as well as Republicans have talked about some a Hoover Commission.

But what worries me, I think we have to make government more efficient. And time is of the essence. We cannot wait. We can't have a great debate for ten years. We need to move.

I'd be interested from others on whether you think that might be a vehicle where we could bring about some of the changes you're recommending.

MR. SHARP. I think if we had had something like that in Texas, we could have passed it all, instead of 62 percent. The key to it is that you have to bring it to a head. You have to bring it to a vote somewhere. And certainly, a commission like that, with those kinds of teeth, are going to bring it to a vote, either all or none or something. But as long as you can find somebody who can get the right recommendations to you to begin with.

I wish we had had that in Texas. We'd have passed a lot more than we did.

MR. GAEBLER. Senator Roth?

SENATOR ROTH. Yes.

MR. GAEBLER. Let me take a stab at that. As a 25-year bureaucrat, the bureaucrats will outlive the politicians. So the question is how can we get it so that the bureaucrats themselves burn with the fire of change?

I'm not sure that the Hoover Commission, the Grace Commission, or any other commissions of the blue ribbon commissions do that.

The bureaucrats say, oh, my God, here's another outside group of business people that don't know anything about how government operates. We operate in a fishbowl and we don't have a bottom line, and all the differences that there are. We'll outlast these folks. We'll pretend to give them information and we'll hide in the weeds.

And they do, and they're good at it.

So, as a city manager, I didn't find it effective to have the Grace Commission or the Hoover Commission concept. What we did find effective was when the policymakers said, what do we need to do to change the incentives so that the employees—management, middle management, other line employees, union stewards, whoever—all have some incentive to change the system? They have some opportunity to be heard; they have some chance to make decisions or influence decisions or influence the missions; that kind of thing.

In talking to many employee groups over the years, I said to them, what does it take to get you to change? Would you actually innovate yourself out of a job, or your neighbor? Obviously not. No hands were raised.

I said, what if we guaranteed you jobs, not necessarily the job you have, but a job with the agency. When you go to work for IBM, you go to work. You may be in marketing, or international things, or sales, or whatever. But when you work for the city government, you start in the fire department and you die in the fire department. You are there forever. You perceive yourself as having a lock on only that job, instead of having an opportunity to think, I can work in a variety of different locations.

People will innovate themselves out of a job that doesn't need to be done any longer if they will personally be guaranteed work for the company, if you will, or for the agency.

So the successful reinventing governments seem to be the ones that are focusing great energy now on the total quality management, which the Federal Government has certainly embraced, the other kinds of avenues that get those creative juices, as John indicated earlier, going inside the organization so that they will continue long after individual governors and mayors and city managers are gone. The fire of change will continue on because that's what's rewarded in the system now, not staying the same.

SENATOR ROTH. Well, I think you can provide incentives that will help get the support of the personnel. As I said, first of all, I do think there's a problem of right-sizing. I don't know how large government should be, but that's something that ought to be looked at with modern communications.

But it does seem to me that if you downsize, then you do it through attrition, that you provide, as I say, early-out. And even more importantly, I think, is the point that if you have a smaller work force, you

can offer better benefits, better incentives, because you can afford to because of the size of it.

I still think, and I think the Grace Committee, even though it did remarkable work, became controversial in a partisan way. One of the advantages of a Hoover Commission is, of course, you try to create it in such a way that it's bipartisan. That's what Harry Truman did way back when he created the first one. He appointed a leading Republican, Hoover. It got tremendous support back home.

But what we need to do is somehow, I think, focus this problem in such a way that it builds grassroots support, because that's the only way that you're going to get these reforms.

We've talked about a lot of the things in education, the need of putting competition into it, but so far, it's been very difficult to get it because of the opposition from the bureaucracy, as well as others.

Mr. Osborne? I've taken enough time, Mr. Chairman.

MR. OSBORNE. One of the really toughest tricks in all of this is that, as Ted said, the innovation is going to come from the bottom up. You have to turn those people on and get them to be innovators.

But to change the incentive systems that drive them, the people at the top have to make decisions. You folks have to change the budget and personnel system, the procurement system, and the accounting system and so on.

I'm not a politician. I've never been elected to office, and I would not pretend to give you advice about the best tactic to get these kinds of changes through. You know far more about that than I do.

All I would say, in general, is that we desperately need leadership. These changes don't happen without leadership and they don't happen without leaders who can paint a vision and get others to buy into that vision of how we're going to make these changes.

Every time we see fundamental changes, we see strong leadership, we see leadership that's willing to stay there for eight years or ten years and keep pushing, and leadership that can sell the vision to the business community, the neighborhoods, to labor, to everybody around the table.

That's what we need in this country at the federal level, right now.

MR. GAEBLER. Just a last comment, if I may, on that point.

Ten years ago, AT&T broke up with a little help from the Federal Government. They realized that they were going to have to change because the public had a wonderful image of Ma Bell. We had that image for all of this century. They realized that that was going to have to change. And so they hired Cliff Robertson. Cliff Robertson single-handedly, I think, spent something like \$300 million of AT&T's money re-educating the American public that there was no more Ma Bell—this monolithic, monopoly entity. There was a flexible change and service decreased in some cases, and people were unhappy with that, and you didn't know who to call.

But finally, the market has taken it. The public would not have accepted that if there wasn't some leadership. Every day you turned on the television, you saw Cliff Robertson saying something new about the fact that there's no longer an AT&T, or in the capacity that we knew it as Ma Bell.

What we need are some people out there who are espousing this thing, and the John Sharps and the Bill Welds are doing that thing.

We had Mayor Cisneros for a long time in Texas talking about those kinds of things, articulating the fact that government can be done differently, being on the front covers of magazines. And city managers and others, bureaucrats, are uncomfortable doing that. It's not our role to do that.

But we need some people out there that can continue to say, why aren't you doing things new? Why aren't you doing things new?

REPRESENTATIVE HAMILTON. That may very well be a good note to end on. This has been a fascinating morning. We are very grateful to you.

Thank you very, very much for your contributions. And we stand adjourned.

[Whereupon, at 12:15 p.m., the Committee adjourned, subject to the call of the Chair.]

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