

Y4
.Ec 7

P94/26

96Y4
EC 7
P94/26

PRODUCTIVITY

GOVERNMENT

Storage

HEARINGS
BEFORE THE
JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES
NINETY-SIXTH CONGRESS
FIRST SESSION

JUNE 5 AND 6, 1979

Printed for the use of the Joint Economic Committee

KSU LIBRARIES
A11900 979697 ✓

DOCUMENTS



FARRELL LIBRARY
KANSAS STATE UNIVERSITY

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1979

51-420

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402

4
7.23.
994/56

JOINT ECONOMIC COMMITTEE

(Created pursuant to sec. 5(a) of Public Law 304, 79th Cong.)

LLOYD BENTSEN, Texas, *Chairman*

RICHARD BOLLING, Missouri, *Vice Chairman*

SENATE

HOUSE OF REPRESENTATIVES

WILLIAM PROXMIRE, Wisconsin
ABRAHAM RIBICOFF, Connecticut
EDWARD M. KENNEDY, Massachusetts
GEORGE MCGOVERN, South Dakota
PAUL S. SARBANES, Maryland
JACOB K. JAVITS, New York
WILLIAM V. ROTH, JR., Delaware
JAMES A. McCLURE, Idaho
ROGER W. JEPSEN, Iowa

HENRY S. REUSS, Wisconsin
WILLIAM S. MOORHEAD, Pennsylvania
LEE H. HAMILTON, Indiana
GILLIS W. LONG, Louisiana
PARREN J. MITCHELL, Maryland
CLARENCE J. BROWN, Ohio
MARGARET M. HECKLER, Massachusetts
JOHN H. ROUSSELOT, California
CHALMERS P. WYLIE, Ohio

JOHN M. ALBERTINE, *Executive Director*

LOUIS C. KRAUTHOFF II, *Assistant Director-Director, SSEC*

RICHARD F. KAUFMAN, *Assistant Director-General Counsel*

CHARLES H. BRADFORD, *Minority Counsel*

CONTENTS

WITNESSES AND STATEMENTS

TUESDAY, JUNE 5, 1979

Foreign Productivity Programs and Performance

Bentsen, Hon. Lloyd, chairman of the Joint Economic Committee: Opening statement.....	Page 1
Proxmire, Hon. William, member of the Joint Economic Committee: Opening statement.....	5
Arai, Joji, manager, U.S. office, Japan Productivity Center, Washington, D.C.....	5
Merchant, M. Eugene, director, research planning, Cincinnati Milacron, Inc., Cincinnati, Ohio.....	11
White, John P., Deputy Director, Office of Management and Budget.....	19

WEDNESDAY, JUNE 6, 1979

Productivity, Corruption, and Waste in the Federal Government

Bentsen, Hon. Lloyd, chairman of the Joint Economic Committee: Opening statement.....	47
Campbell, Hon. Alan K., Director, Office of Personnel Management.....	48
Staats, Hon. Elmer B., Comptroller General of the United States.....	55
Civiletti, Benjamin R., Deputy Attorney General, Department of Justice.....	71

SUBMISSIONS FOR THE RECORD

TUESDAY, JUNE 5, 1979

Bentsen, Hon. Lloyd: Charts:	
International indices of labor productivity.....	3
Real per capita disposable personal income.....	4
Merchant, M. Eugene: Prepared statement.....	15
White, John P.: Prepared statement.....	22

WEDNESDAY, JUNE 6, 1979

Campbell, Hon. Alan K.:	
Prepared statement.....	52
Response to an additional written question posed by Senator McGovern.....	99
Civiletti, Benjamin R.:	
Prepared statement, together with a memorandum.....	75
Letter to Senator Bentsen, dated June 26, 1979, with an attachment, in response to Senator Proxmire's request to supply for the record a status report on pending fraud cases referred to the Justice Department involving Navy shipbuilding contracts.....	94
Response to additional written questions posed by Senator McGovern.....	101
Letter to Senator Bentsen from John C. Keeney, Acting Assistant Attorney General, Criminal Division, Department of Justice, dated August 30, 1979, clarifying a statement in Mr. Civiletti's testimony, at his request, regarding the number of convictions against employees, particularly directors, of HUD insuring and area offices....	105

IV

Staats, Hon. Elmer B.:

Letter of response to Senator Proxmire's letter, dated September 21, 1970, regarding the General Accounting Office undertaking a comprehensive evaluation of the possibilities for measuring productivity in the Federal sector of the economy.....	Page 58
Completed and ongoing work by the General Accounting Office on public sector productivity.....	63
Prepared statement, together with an attachment.....	64
Response to Senator Proxmire's request to supply a list of countries in the foreign military sales program affected by the Department of Defense's failure to properly cost and bill for arms it sells.....	96
Letter to Senator Bentsen, dated June 19, 1979, expounding upon the General Accounting Office's project comparing common government functions with similar functions in the private sector.....	103
Letter of response, with an enclosure, dated July 11, 1979, to Senator Bentsen's letter of June 6, 1979, providing additional details on the General Accounting Office's review which identified 154,000 incidents of alleged fraud at 22 Federal agencies.....	103

PRODUCTIVITY

TUESDAY, JUNE 5, 1979

FOREIGN PRODUCTIVITY PROGRAMS AND PERFORMANCE

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met, pursuant to notice, at 10 a.m., in room 5110; Dirksen Senate Office Building, Hon. Lloyd Bentsen (chairman of the committee) presiding.

Present: Senators Bentsen and Proxmire; and Representative Brown.

Also present: John M. Albertine, executive director; Paul B. Manchester and George R. Tyler, professional staff members; Charles H. Bradford, minority counsel; and Carol A. Corcoran and Mark R. Policinski, minority professional staff members.

OPENING STATEMENT OF SENATOR BENTSEN, CHAIRMAN

Senator BENTSEN. This hearing will come to order. This is the first of two hearings that the Joint Economic Committee is conducting on the issue of productivity. No single issue has more importance to the fundamental underlying economic well-being of the United States than productivity. Productivity growth translates directly into less inflation, and rising paychecks. Low productivity means economic stagnation.

If we look beyond the surface of our mounting economic problems—inflation, slow economic growth, jobs being lost due to foreign competition, the declining dollar—we see that it is related to the dismal U.S. productivity performance since World War II. From 1950 to 1977, productivity in Japan grew four times faster than in the United States. Chart 1 dramatically illustrates what we're talking about. In France, Italy, and Germany it grew 2½ times faster over the last 10 years. Even the generally inefficient British economy has consistently scored productivity gains two to three times above our own.

In 1950, it took seven Japanese to produce what one American produced. By 1977, it took less than two to match one American. In 1950, it took three German workers to match the production of one American worker. Now, it's down to 1.3 Germans. These sharply higher productivity gains abroad have persisted in recent years, as well. Since 1967, productivity in Japan has grown almost twice as fast as U.S. productivity. We still out-produce our foreign competitors, but the gap is closing so fast that if the present trends continue, French and

German workers will be out-producing us within 6 years. Japanese and Canadian workers will follow soon thereafter.

A number of factors are responsible for the much better productivity rates abroad. As part of postwar reconstruction plans, the United States required the devastated European and Japanese economies to adopt national productivity programs. These programs were a remarkable success, much more successful than the hit-or-miss Federal efforts in this country since World War II. Had the Federal Government since World War II been willing to stimulate productivity, had we taken the steps to save more and invest more, our national output would be significantly higher than it is now.

Always before in this country people have felt that things were going to continue to get better; that all they had to do was work hard and they had a chance for a step up in life because the economic pie in this country would continue to get larger. But that is no longer the case and won't be until we can turn around the productivity trend in this country.

For example, the committee in chart 2 has projected the effects on per capita disposable personal income of higher productivity. Take this chart over here on the right which compares the actual historical American growth in disposable personal income and what it could have been if we had increased productivity in this country since 1950 at the rate the Japanese increased it.

If we had increased productivity in this country to the extent that the Japanese have done it, you would see real disposable per capita personal income in this country approaching the \$25,000 mark. That's in 1978 dollars and is well over double our actual levels today. Now, that ought to be enough to make people understand the importance of these hearings and what we must do to spur productivity, to turn around some of the very substantive things that are happening to this country concerning productivity. It shows the need for watching what some of our friends, some of our foreign competitors, are doing. And I think we have a lot to learn from them. They have certainly learned from us and in many instances they improved the management practices and technology that we had previously been preeminent in.

We'll be hearing about these foreign productivity programs today from Mr. Joji Arai of the Japan Productivity Center, who will discuss the Japanese programs. They have learned a lot from us, and now it's our turn to learn a lot from them.

Mr. Eugene Merchant, director of research planning for Cincinnati Milacron, will discuss the European programs, and we have some things to learn there, too.

He will be followed by Mr. John White, Deputy Director at OMB, the agency responsible for coordinating our national productivity program.

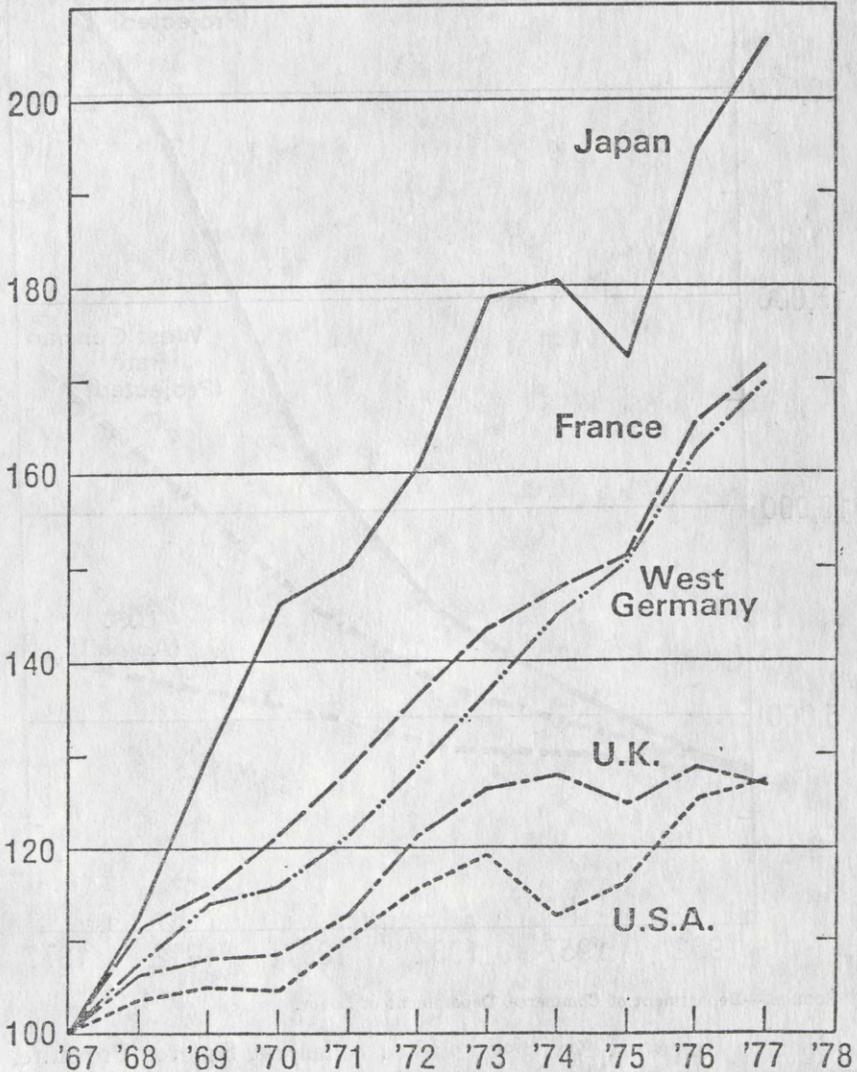
Before we begin, let me note that the JEC hearing tomorrow will focus on productivity within the Federal Government, including the problems of waste, corruption, and fraud. Witnesses will be Deputy Attorney General Benjamin Civiletti, Mr. Alan Campbell, Director of the Office of Personnel Management, and the Comptroller General, Elmer Staats, who will discuss a recent GAO study on Federal employees' work habits. I'm convinced that most Federal employees are diligent and hard working, and that their relatively poor productivity performance generally can be traced to a failure in Government management practices.

[The charts referred to in Senator Bentsen's opening statement follow:]

CHART 1

International Indices of Labor Productivity

Output per Hour of
Manufacturing Workers,
Normalized to 1967

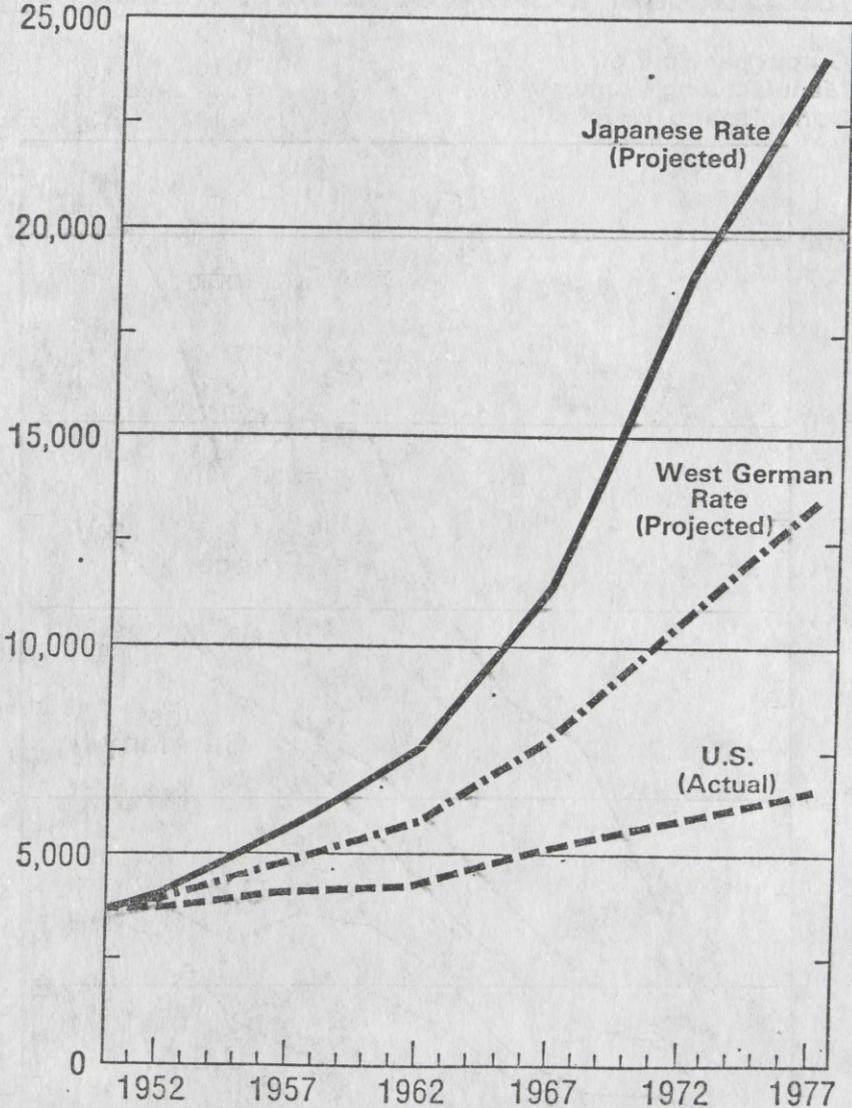


SOURCE.—"Why is U.S. Productivity Slowing Down?", Harvard Business Review, March-April 1979.

CHART 2

Real Per Capita Disposable Personal Income

1978 Dollars



SOURCE.—Department of Commerce, Department of Labor.

Senator BENTSEN. My distinguished colleague, Senator Proxmire, would you care to add some remarks?

OPENING STATEMENT OF SENATOR PROXMIRE

Senator PROXMIRE. Thank you very much, Mr. Chairman.

First, I want to congratulate you on these hearings. I think it's essential that we consider productivity and consider the reasons for this recent relatively poor showing on our part. There is no question of the fact that the one way, the surest way, where we can make progress with respect to inflation is to improve our productivity. And, there is no way that higher wages can be paid year after year in the absence of rising productivity without these wages being passed on as higher prices. So, I think these hearings are most useful, and it's particularly helpful to have such outstanding experts as we have today, Mr. Arai, Mr. Merchant, and Mr. White testifying. I'll be here tomorrow, but I might just say that I am somewhat concerned about the impression that productivity in the Federal Government has been so poor.

The fact is that in recent years we've had the first really substantial improvement in productivity in the Federal Government. The first thing your're going to do if you're going to improve productivity in the Federal Government is to measure it. We've begun for the first time measuring it. We've made enormous progress in that respect. We now have more than 60 percent of our jobs measured which is something new and different, something that hadn't been done in the past. That's five times as high a proportion of jobs in the Federal Government that have been measured as jobs in the private sector. Furthermore, we find some agencies have greatly improved their performance in the Federal sector. The Social Security Administration, for instance, has seen more than a 6-percent productivity improvement annually, with some years attaining as much as 15 percent improvement in productivity. It shows that it can be done, and it is being done to some extent.

Some of the people we're having testify, particularly the Comptroller General, Mr. Staats, devoted long and painful hours in trying to persuade the Federal Government to get on top of its productivity, and persuade those of us on the Appropriations Committee to challenge them to report to us on productivity improvement.

Other people like Tom Morris, Dwight Ink, and Bernard Rosen, have done really remarkable work and deserve a great deal of credit. So, I think these hearings are most useful in focusing our attention on what I think is the most important thing we can do to get on top of the question.

Senator BENTSEN. I thank the Senator from Wisconsin.
Mr. Arai, if you would proceed, please.

**STATEMENT OF JOJI ARAI, MANAGER, U.S. OFFICE, JAPAN
PRODUCTIVITY CENTER, WASHINGTON, D.C.**

Mr. ARAI. Thank you very much, Mr. Chairman and members of the committee. I am indeed delighted and honored to have this opportunity to testify before your distinguished committee because the Japan Productivity Center was established back in 1955 with the encouragement of the U.S. Government. It has also received substantial funding from the U.S. Government to carry out the initial

programs. We still receive enthusiastic support and cooperation from the U.S. Government and industries. So, I am indeed delighted to have this occasion to express my thanks for the cooperation extended by the American people.

Japan is a nation without natural resources. She depends upon overseas supplies for 90 percent of her energy and raw materials. The long list of dependency on natural resources starts with 100 percent reliance on foreign supplies of aluminum, nickel, and 88 percent on iron ore. On the energy side, the list starts with 100 percent uranium, 99.7 percent crude oil, and 78.5 percent coal. Thirty percent of our food supply comes from foreign sources. The country is about one twenty-fifth the size of the United States, and only 14 percent of it is suitable for human habitation, agriculture, and industry.

Yet, Japan is now the third most productive nation in the world after the United States and the U.S.S.R. Her gross national product is about one-half that of the United States, and her per capita gross domestic product has doubled in the last 10 years and is now about 70 percent of the United States. Japan is the third largest producer of steel with a production of 100 million tons. Annually she produces 6 million tons of plastic, 12 million TV sets, and 8 million automobiles.

During the decade prior to 1973, when the Arab oil embargo dampened the economic growth of the world, Japanese industries continued to increase their productivity at an annual rate of 9.8 percent. Though the rate of the productivity rise declined somewhat in recent years, Japan's industries still registered an increase of 132 percent in the last quarter of 1978 from the 100-percent level of 1975, and an 8-percent rise in 1978 over the previous year.

Many other factors contributed to the rapid growth of productivity of her industries.

Some of the major ones are:

1. Government policies and programs that actively and passively support the economic expansion.

(a) Industrial restructuring plan.

(b) Special tax measures and currency conversion rate for export promotion in the 1950's.

(c) Accelerated depreciation and other preferential tax measures for growth industries in the 1960's.

(d) Preferential bank loans.

(e) Lax enforcement of antimonopoly laws.

(f) Administrative guidance.

2. Capital investment.

3. Technological innovation—Research and development.

4. Rise in the educational level of the work force.

5. Improved skill and work ethic of employees.

6. Harmonious labor-management relations.

7. Economy of scale.

8. Systems improvement.

9. Effective catalysts for the nationwide productivity movement.

Although Japan is under a democratic rule and upholds the principles of capitalism and free economy, her people are also aware of the limits of her ability and power because of the scarcity of natural resources and virtual nonexistence of a military force for even her own defense. The well planned and coordinated economic policy was necessary to set the Nation back on its feet at the end of the war through

the allocation of natural resources to those sectors where they would produce the best results.

In the 1950's and 1960's, preferential tax exemptions and accelerated depreciation rates were given to the export-oriented industries so that with the favorable conversion rates for foreign currency, Japan could build up its foreign exchange reserves and buy technology and new equipment from abroad.

As the industries matured, the protective tariffs and special tax measures were gradually decreased, and many were removed by the 1970's.

The Government of Japan is a well-structured planning organization with much leverage in the form of special tax measures, foreign exchange controls, and administrative guidance which is used in influencing the decisions of the private sector. It is run by bureaucrats. Because of the unique function of Government, the cream of the graduates from the finest schools tend to choose Government careers over business. In the United States and European countries Government employees represent over 20 percent of the total labor force; in Japan less than 10 percent works for the Government.

In pursuit of attaining the desired economic growth for Japan's survival throughout the planned allocation of limited natural resources, legislative and executive branches coordinated their programs and policies so that the Government would not hinder economic growth. Unlike the United States where upholding the rules of the democracy and free competition sometimes results in policies and programs that adversely affect some sectors of society, such as the strict enforcement of antitrust laws and regulations, the Occupational Safety and Health Act, and the Equal Employment Opportunity Act, the Japanese Government sometimes encourages mergers and technical cooperation among competing companies in order to strengthen their economic base.

One of the important factors for increasing productivity is capital investment. The level of annual investment in plants and equipment was 29 percent of real output between 1962 and 1972 which was considerably higher than that of other countries.

Scandinavian countries are now planning to set aside a certain percentage of labor's share of profit for investment in plants and equipment. In Japan the natural cycle of labor's investment, with deposits of over 20 percent of workers' income at financial institutions, helped the growth of companies, as debt-financing has been the most prevalent mode of expansion in our country.

The oil embargo of 1973 and the subsequent worldwide recession adversely affected our investment picture. Now the investments of all industries stand at the level of 82 percent of 1973. Cognizant of the importance of capital investment, however, many industries still endeavor to maintain their 10 year "scrap and rebuild plan" so as to remain competitive in the international market.

The third factor to be considered is the research and development effort. A recent report put out by the Department of Commerce indicated that between 1929 and 1969, technological innovations contributed toward a 45-percent growth of the gross national product. It pointed out that high technology companies created jobs 88 percent faster than other businesses during 1957 and 1973; the productivity of those companies grew 38 percent faster than the others.

The importance of technological breakthroughs in increasing productivity cannot be overemphasized. Japanese corporate executives are and have been cognizant of this fact and have been increasing their investment between 15 and 20 percent annually in the last decade. Even after the 1973 oil embargo contributed toward Japan's reducing her growth rate from the past decade to about 5 percent down from 13 percent, the investment on research and development remained at the annual level of 16 percent in 1977. Major Japanese corporations spent approximately \$10 billion on research and development in 1977. While this amount is considerably less than the \$21 billion in investments made by U.S. corporations during the same period of time, almost the total \$10 billion went for research and development of commercial products as compared to the heavy emphasis on space exploration and weapons production in this country.

Japan has placed heavy emphasis on the development of high-speed and large-scale computers, peripheral equipment, medical electronics, and communications equipment. A serious attempt is also being made to develop a series of sophisticated sensor/computer/machine interaction devices with practical industrial application through the joint efforts of a score of leading high-technology companies with the enthusiastic encouragement of the Government.

In June 1976, the Ministry of International Trade and Industry completed the basic design of an unmanned manufacturing plant with approximately 250,000 square feet of floorspace. The original plan called for the plant to be located underground and to produce machine tools with some 2,000 different parts. This prototype was expected to be completed by 1983, and to be operated by 10 persons, rather than the 750 workers normally required for this type of operation. This plan was of such magnitude that it was later scaled down, but it triggered invaluable research in the area.

As in the United States, the intellectual level of workers has contributed substantially toward increasing production. While in this country about 48 percent of high school graduates go to college, in Japan 42 percent do. Although this is lower than in the United States, the Japanese figure is higher than that of European countries. The relatively high academic level of workers enabled Japanese companies to pursue the fruits of technological innovations.

In order to improve the worker's skill, Japanese companies usually spend more money per employee than their American counterparts do on training their workers.

In management as well as on shop floors, participatory and consensus-based decisionmaking is prevalent in Japanese companies. This teamwork concept was greatly expanded to include blue-collar workers when Mr. Duran and Mr. Deming introduced statistical and total quality theory to Japanese business in the 1950's. While Mr. Duran's plan involved only the middle managers, the Japanese used it as a base on which to build their own version of the quality control program, called the QC circle, within the framework of their culture.

The QC circle can be defined as a group of workers and shop foremen who voluntarily meet to solve job-oriented quality and productivity problems.

There are literally tens of thousands of cases reported in which the workers' voluntary programs resulted in a drastic increase in productivity and a decrease in the production of defective parts and products.

The adversary system, so deeply inbred in social, legal, and economic life in the United States and Europe, never took hold in the Japanese environment. Even in the area of labor-management relations the idea persisted that progressive management and democratic trade unionism could coexist. The Japanese propensity to reject or avoid adversary situations and the observation of the successful movement in Germany in the late 1950's prompted many Japanese companies to create labor-management councils in their corporate structure. The council usually consists of three executives from the company, such as the vice president of manufacturing, industrial relations, and corporate planning; and from the labor union the president, vice president, and the secretary. The council often meets to discuss such subjects as changes in production volume and schedules, process, and speed; introduction of new equipment and machines; plans for capital investment; recreational and welfare programs; occupational health and safety as well as long-range planning and employment policies which basically belong in the area of management prerogatives in the United States.

This system provides a constant means of communication between management and labor, enabling them to reach amicable settlements on controversial issues before they resort to either strikes or lockouts. Of the 14 million organized workers, 11 million subscribe to such a system. This system enables management and labor to maintain the constant communication which is a prerequisite for solving problems before the situation deteriorates so that the unions have to call a strike. The existence of the council in a majority of Japanese corporations results in their losing about 1.5 million man-days to strikes per year as compared to their American counterpart's loss of about 35 million man-days in 1977.

The seventh factor is the economy of scale. In an attempt to meet the demand of shipowners for building ever-larger tankers and dry cargo carriers, Japanese increased docks of over 60,000 ton capacity from 21 in 1962 to 57 in 1976, and particularly those docks with a capacity of over 90,000 gross tons from 13 in 1962 to 35 in 1976.

The increased dock capacity and introduction of new technology enabled a yard to launch the 484,377 deadweight ton *Nishomaru* in 1975. This drastically reduced the cost per ton of the carrying capacity as compared to the conventional tanker of smaller size, and this increased productivity.

In the steel industry, 51.4 percent of Japan's 72 blast furnaces had large inner volumes of more than 2,000 cubic meters compared with 2.6 percent of 192 of the U.S. furnaces when Japan's steel export became a controversial issue in 1974. The result has been a tremendous reduction in cost and an increase in productivity as expressed in terms of man-hours per ton of steel. As compared with 25.5 hours in 1964, it was down to 9.2 hours in 1974. The U.S. mills which were nearly twice as productive as the Japanese ones a decade ago have gone from 3.1 hours in 1964 to 9.8 hours in 1974.

We learned system engineering from the Americans, and we are still learning.

In order to cope with the shortage of labor and reduce the cost of production, Japanese manufacturing industries initiated the dramatic onslaught to automate the production line by the extensive use of computer-assisted material handling systems. In some phases of the manufacturing process of automobiles, steel, home appliances, watches;

and other industries you can see the third shift completely taken over by computer-run machines and robots. Many have incorporated the vendors' delivery service into the system so that there are practically no waiting, semiprocessed products between subsystems.

One automobile company requires them to deliver parts twice a day on schedule in order to reduce the assembly time of the cars. To assure the high quality of the parts to be delivered by vendors, companies involve them in the designing stage as well as in the QC circle program.

In 1955, when the Japan Productivity Center (JPC) was established, Japan was suffering from a chronic deficit in her balance of payments and her industries faced low productivity problems and many long strikes. Her GNP only amounted to one-sixteenth that of the United States level and one-tenth that of the United Kingdom.

The U.S. Department of State, which under the Marshall plan had successfully sponsored productivity study teams from Great Britain and other European countries, proposed that the Japanese Government establish a productivity center patterned after the European Productivity Agency in Paris. The Japan Productivity Center was established in March 1955, as a tripartite, nonprofit, nongovernmental foundation representing management, labor, and academe to promote productivity in Japan. It was decided that our productivity movement must be a voluntary, nationwide movement and that the best way to start such a movement was to have an effective catalytic agent so the public, business, academe, and labor could fully understand their roles.

Between 1955 and 1962, with a grant totaling \$6.4 million, the Japanese Productivity Center carried on its technical exchange program in cooperation with the U.S. Agency for International Development.

The original programs included the sending of business executives and labor union leaders to the United States to observe manufacturing technology, management methods and industrial relations; we also sponsored in Japan seminars, workshops and conferences on scientific management techniques developed in the United States. Gradually the scope of operations was expanded to include the establishment of (1) Management Academy and Training Center; (2) Labor College; (3) Productivity Research Institute for Small Business; (5) Labor-Management Counseling Service; (6) Consulting Services. Currently, we are initiating new programs to combat occupational mental health problems and to promote the concept of anticipatory democracy involving businessmen, labor union members, academicians, environmentalists, and consumer movement activists.

The factors I have described worked well until 1973—then things came to an abrupt halt with the worldwide recession of 1974 and 1975 which followed the oil crisis. Inadequate investment in social security, welfare and pension programs, housing, sewage, road systems, and environmental protection brought forth a serious imbalance in the quality of life of the Japanese people. The expansion-oriented economic policy is being severely criticized and inviting reprisals against the Japanese trade practices.

Management faced the critical issue of maintaining their work force on the payroll under the conventional lifetime employment system as sales of their products sharply declined. Stricter environmental regulations required them to spend 20 to 30 percent of their investment

on pollution control and abatement equipment. This meant that while output was reduced, input remained the same, resulting in a drastic decline in the growth rate of productivity.

Only through aggressive programs of encouraging early retirement of employees and diversifying into new product lines have Japanese industries been able to recover the productivity growth rate of 8 percent in 1978 from the near zero growth rate of a few years ago.

The future is not so bright for Japan. However, I still believe that for many years to come Japan will be able to maintain the highest increase in productivity among the industrialized nations, although it will not increase at the pre-1973 rate of 9.8 percent.

The reasons for this prediction are: capital investment is increasing; research and development efforts are accelerating; given the thriftiness of the Japanese worker, who maintains over 20 percent of his disposable income, an abundant supply of needed capital is assured; the drastic shift from the extended family to the nuclear family society is taking place at a rather slower pace than predicted by sociologists. The survival of the extended family will assure a high moral character and ethical standards of the people; the modified lifetime employment system may produce an optimal mixture of meritocracy and the traditional Japanese system; management is aggressively pursuing strategy to accomplish a structural change in corporations to cope with the rapidly changing business environment; the workers' sense of participation in the national and corporate goals continues.

I firmly believe that Japan can only retain such growth through cooperation with our biggest trading and political partner, the United States. In spite of the rapid growth of all Japan's industries, her average productivity is still considerably lower than that of the United States. We still need to learn much from the United States. Thank you.

Senator BENTSEN. Mr. Arai, it looks like you learned an awful lot from us—and improved on it. That's a very interesting statement, but we will reserve questions until all of those testifying have had an opportunity to make their statements.

Mr. ARAI. Yes.

Senator BENTSEN. Our next witness will be Mr. Eugene Merchant of Cincinnati Milacron. We are very pleased to have you. It is my understanding that you will be discussing some of the things that European countries are doing to help their productivity. We look forward to hearing from you.

**STATEMENT OF M. EUGENE MERCHANT, DIRECTOR, RESEARCH
PLANNING, CINCINNATI MILACRON, INC., CINCINNATI, OHIO**

Mr. MERCHANT. Thank you very much, Senator Bentsen.

I appreciate the opportunity to talk to you about European programs. I wish first to provide some information as background for why I may be the one speaking to this point. As director of research planning for Cincinnati Milacron, part of my responsibility is to look at the state of the art and future trends in manufacturing throughout the world; technological trends, economic trends, and social trends.

It probably is pertinent too that I am a member and past president of two organizations very active in this field—the 50,000-member Society of Manufacturing Engineers of this country, which is a major

factor in enhancing manufacturing productivity in this country, and an international organization known as the International Institution for Production Engineering Research, which is really sort of an elite forum for international exchange of the most advanced state-of-the-art information and research-in-progress information in the field of manufacturing technology.

Now, I want to make four main points which I will enumerate first and then expand on. The first two have to do with the strategy behind the European programs; and the second two have to do with the general nature of the European productivity improvement programs.

You've noticed I keep saying the word "manufacturing," and that has to do with my first point. That is that manufacturing accounts for approximately two-thirds of the wealth-producing activity of most industrialized nations today.

Senator BENTSEN. Two-thirds of the what?

Mr. MERCHANT. Wealth-producing activity, and I'll expand on that point later to explain why I say that.

So, I will be concentrating in particular on manufacturing productivity improvement, because, at least intuitively, the European nations recognize the fact just stated.

The second point, also at least intuitively recognized by them, is that reduction of the cost of wealth production through improved productivity is a major instrument for improving the economic health and well-being of an industrialized nation. I'll expand on that point in a moment.

As a result of that, the third point is that the European nations have concentrated on research and development, and implementation in industry of improved manufacturing technology. That's really the heart of their productivity improvement programs. Why technology? Because studies have shown that technology is responsible for up to 60 or 70 percent of productivity increases.

The fourth point is that the prime mechanism which the European nations are using in this program of concentrating on research, development and implementation of advanced manufacturing technology is that of joint, cooperative, tripartite action by government, universities, and industry. The technical societies and trade associations also play a supporting part in that, but the tripartite government, university, industrial factor is the major element.

Now, to expand briefly on those points. The first point is that of manufacturing accounting for two-thirds of the wealth-producing activity of most industrial nations—European nations and others.

That has been explained in some detail in a position paper of the Society of Manufacturing Engineers entitled "The National Role and Importance of Manufacturing Engineering and Advanced Manufacturing Technology." No doubt you have received copies of that. But the point made there is that if we look at the gross national product figures of the average industrialized country, manufacturing accounts for about one-third of the gross national product. But about 50 percent of the gross national product derives from services which are not wealth producing, per se, although they are necessary to a high standard of living and a high quality of life. But with 50 percent of the gross national product deriving from services, and with manufacturing

accounting for one-third of the overall gross national product, that means that manufacturing accounts for two-thirds of the wealth-producing activity of the average industrialized country.

That is true in the United States also. The figures are a little different, of course. Manufacturing here accounts for 23 percent of the gross national product. The extractive and construction industries, 11 percent. They are the other part of the wealth-producing activity. Services are 66 percent of GNP in this country. When you do the arithmetic on that, you come out with manufacturing accounting again for 68 percent of the wealth production in this country. So we are not different.

My second point is the importance of the reduction of the cost of wealth production to the economic health and well-being of the economy. This again is recognized, at least intuitively, by most European nations as was my first point. And, as I said, services, of course, are necessary, in fact essential, to a high standard of living and a high quality of life. But we have to remember that the service sector of the economy is supported by the wealth-producing sector of the economy, and it's through increased support for services that we get this high quality of life. Broadened social programs, desirable to have in this country, or in the European countries, stem then directly from the reduction of the costs of wealth production through improved productivity in wealth production. Therefore, with manufacturing accounting for two-thirds of wealth production, the European nations, at least, are giving top priority to productivity improvements in the manufacturing industry. You can see, of course, the results of some of that in the first chart on the left, which you referred to in your opening statement earlier this morning, Mr. Chairman, and which presents data specifically on manufacturing productivity.

My third point has to do with the way European nations go about implementing this strategy based on those two facts. I've said that technology is responsible for some 60 to 70 percent of productivity increase.

That has been documented by three different types of studies— one by Denison, another by Kendrick, and another by Christensen, Cummings, and Jorgenson—which show that technology contributes roughly 59 to 60 percent of productivity increases. Capital growth contributes some 27 percent. Labor improvement some 14 percent on average.

The Kendrick study gives a weight as high as 72 percent for the contribution of technology to productivity.

This kind of fact then is the reason why the European nations' programs have concentrated heavily on research, development and implementation in industry of advanced manufacturing technology. That is, as I said, the heart of their productivity improvement programs.

Fourth: The prime mechanism for productivity improvement, as I said, is this tripartite action of government, universities and industry. In this, the role of government is that of leadership, coordination of the national effort and some of the funding of the manufacturing research and development carried out in universities.

The role of the universities, of course, is, first, to carry out manufacturing research and development. But manufacturing research and development of a generic nature, that is broadly applicable throughout the manufacturing industry—not a bits and pieces approach.

Second, the role of the university is to help accomplish the implementation of improved manufacturing technology in industry—not only that developed by them but that developed anywhere in the world.

The role of industry is, first, to provide some of the funding of the generic university research and development, and second, of course, to utilize the results of that in proprietary development and implementation of products and processes. As I said, the technical societies have a somewhat secondary role in this. They assist in the dissemination of the new technology to industry and they assist in the coordination of the university research and development programs.

And the trade associations have a role. They provide advice on needed kinds of generic research and development of most benefit to manufacturing productivity, and they provide a channel for joint industry funding of such research and development.

Let me highlight one or two features of these tripartite programs that are important to know.

First, the technological thrust of the cooperative research and development and implementation programs. They are giving the highest priority to manufacturing technology that has the greatest potential for future productivity improvement in the manufacturing industry. Formerly, that was generic improvement of manufacturing processes. But now it has been recognized that there is far greater potential in another area of manufacturing technology; namely, what is called computer integrated manufacturing—the same kind of thing to which Mr. Arai alluded several times and described in several ways in his testimony.

So, the lion's share of the research, development and implementation today is toward the application of the computer to on-line optimization and automation of both the soft and hard components of the total manufacturing system, using the system's engineering to which Mr. Arai also referred. That thrust is well documented in the report of the Comptroller General of the United States to the Congress, June 1976, entitled "Manufacturing Technology—A Changing Challenge to Improved Productivity," of which you have copies.

Another feature, university research institutes. These have been found to be among the most successful way of implementing this program of tripartite cooperation.

Centers of excellence at the university. This is particularly found in the Northern European countries. In West Germany, for example, there are three outstanding centers on manufacturing technology at Aachen, Stuttgart, and Berlin Technical Universities. The eight other technical universities have lesser programs. The primary thrust of all of these, and particularly of the three in Aachen, Berlin, and Stuttgart, is computer integrated manufacturing. These centers are well supported by government and industry. They are growing rapidly.

For example, at the Technical University of Aachen, the Institute for Machine Tools and Manufacturing Engineering has a staff of some 400 graduate students, undergraduate students and full-time employees, and they're now planning a 50-percent increase in that.

Finally, educational benefit—a very important sort of side benefit of this emphasis involving the university resource in this manufacturing productivity improvement. The result has been a very good supply

of highly qualified industrial practice oriented engineers. The professors, the undergraduate students, and the graduate students involved in this research for industry do get to deal with and have a good recognition of and feel for real world industrial problems. And when the students go into industry they provide an excellent technology transfer mechanism to industry.

In closing, a couple of recommendations.

The prime recommendation is this: I would recommend that you assist and encourage the proposed Department of Commerce cooperative technology program because this has resulted from careful study of these foreign technology-oriented productivity improvement programs, and an adaptation of these to the American ideology and culture. That cooperative technology program has the essentials of this tripartite cooperation that I mentioned above, and it does propose joint Government-university-industry cooperation in research and development, and implementation of generic technology in industry. And it does propose setting up Cooperative Technology Centers for university-industry cooperation in research and development, and implementation as not-for-profit corporations appropriate to the American system. As a corollary to that recommendation, I would recommend that you encourage first priority—in the establishment of these centers and the Department of Commerce cooperative technology program—to the conduct of programs devoted to research and development, and implementation of advanced manufacturing technology, and particularly computer integrated manufacturing, because of the points I made about the great importance of that to the economic well-being of the country.

Senator BENTSEN. Thank you very much, Mr. Merchant.
[The prepared statement of Mr. Merchant follows:]

PREPARED STATEMENT OF M. EUGENE MERCHANT

Mr. Chairman and members of the Committee. I am M. Eugene Merchant, Director, Research Planning, Cincinnati Milacron Inc. My firm is primarily a producer of capital equipment, such as machine tools and plastic processing machinery, for the manufacturing industry. A part of my responsibility in research planning is to keep abreast, through first-hand knowledge, of the current state of the art and future trends in manufacturing throughout the world. This includes both manufacturing technology and the social and economic factors pertinent to its present and future status. I am also a member and past president of the 50,000 member Society of Manufacturing Engineers (SME), a potent factor in enhancing manufacturing productivity in this country, and of the International Institution for Production Engineering Research (CIRP), an elite forum for international exchange of information on manufacturing research-in-progress around the world.

I am pleased to have this opportunity to provide you with information and express my views to you concerning productivity in prominent programs in Europe and the effects of those programs. I will direct my remarks primarily to manufacturing productivity, for two reasons. First, it is my main area of expertise. Secondly, and I believe more importantly, manufacturing, as I will explain later, accounts for roughly two-thirds of the direct wealth-producing activity of most industrialized countries in Europe and elsewhere. Thus reduction of the cost of manufacturing, through improved productivity, is the major instrument for improving the economic health and well-being of industrialized countries. Secondly, I will concentrate heavily on programs for research, development, and implementation in industry, of improved manufacturing technology. The reason for this is that at least three different studies of the relative importance of labor quality, capital growth and improved technology to productivity increases have shown that technology is by far the most important factor, normally being responsible for some 60 to 70 percent of such increases.

Recognizing these facts, most European nations are concentrating heavily on programs to research, develop, and implement in industry, improved and advanced manufacturing technology. Their prime mechanism for doing this is joint, cooperative, tri-partite action by government, universities and industry. Technical societies and trade associations play a supporting role in this activity.

Now let me expand somewhat on the above points. Concerning the importance of manufacturing as the major wealth-producing activity of industrialized countries, this is discussed in the SME Position Paper of May 8, 1978, which most if not all of you received last year, entitled "The National Role and Importance of Manufacturing Engineering and Advanced Manufacturing Technology". In brief, if we look at gross national product (GNP) statistics for industrialized countries, we find that, on average, manufacturing accounts for about one-third of the GNP of such countries. However, services account for about one-half of their GNP. Services, while very necessary to a high standard of living and a high quality of life, are not wealth producing. They depend for their support on the wealth producing activities, i.e. the extractive (agriculture and mining) industries, the construction industry and the manufacturing industry. Of these, as noted above, manufacturing accounts for about one-third of the GNP and thus, with the non-wealth producing service sector accounting for about one-half the GNP, it follows that manufacturing accounts for about two-thirds of the direct wealth-producing activity of most industrialized nations. (In the case of the United States, the latest statistics available to me—those for 1974—show that manufacturing accounts for approximately 23 percent of the GNP. The extractive and construction industries account for about 11 percent and services the remaining 66 percent. From this it follows that manufacturing accounts for about 68 percent of the direct wealth producing activity of modern America.)

Most European nations are well aware of this importance of cost-effective manufacturing to their economic health and well being. They recognize that the services necessary to a high standard of living and high quality of life depend for their support on the wealth-producing segment of the economy. Thus they know that improvement and expansion of these stems directly from reduction of the cost of wealth production through improved productivity in such. Improvement of productivity in the manufacturing industry thus has top priority. That they have been successful at this is evidenced by the fact that manufacturing productivity in most European nations has grown at a rate of better than 6 percent per year in recent years.

The major factor producing this high rate of growth has been their emphasis on research, development and implementation of improved manufacturing technology. Intuitively, I believe, they have long recognized that improved technology is the most important contributor to improved productivity. This fact has been substantiated recently in three independent studies of the relative contributions of labor quality, capital growth and improved technology to improved productivity. These studies were conducted by Denison, by Kendrick and by Christenson, Cummings and Jorgenson and are summarized in volume 2, number 6 (June 1978) of *Manufacturing Productivity Frontiers*, a publication of the Manufacturing Productivity Center of the Illinois Institute of Technology Research Institute. The table summarizing their findings is reproduced below.

CONTRIBUTION TO PRODUCTIVITY INCREASES

[In percent]

	Labor	Capital	Technology
Denison.....	18	20	62
Kendrick.....	10	18	72
Christensen, Cummings, and Jorgenson.....	14	42	44
Average.....	14	27	59

It can be seen that in each case, or on average, technology is the leading contributor in productivity improvements.

As mentioned above, the prime mechanism which most European nations have used for research, development and implementation in industry of improved, advanced manufacturing technology is joint, cooperative, tri-partite action by government, universities and industry. The role of government is to provide leadership, coordination, and some of the funding in support of the manufacturing

research and development (R&D) done in the universities. The role of the universities is to carry out manufacturing research and development of a generic nature, broadly applicable throughout the manufacturing industry, and to help accomplish the implementation of that and other improved manufacturing technology in industry. The role of industry in this cooperative activity is to provide some of the funding in support of the university research and development as well, of course, as to do the proprietary development and implementation of the resulting advanced technology to more productive processes and products. As mentioned above, technical societies and trade associations also play a role in this tri-partite cooperative activity in support of improved manufacturing productivity. The technical societies assist in the dissemination of new technology to industry and in the coordination of the university R&D programs. The trade associations provide advice on the short and long term needs and problems of industry requiring generic university R&D and provide a channel for the joint industry funding of such R&D.

It is important to note here the technology thrust of most of these cooperative R&D and implementation programs. Manufacturing technology is a broad field and to give equal emphasis to all of it in programs to effect maximum manufacturing productivity improvement would obviously be wasteful of resources. Thus the joint government-university-industry planning of these programs gives highest priority to those areas of manufacturing technology that appear to have highest potential for future productivity improvement. A number of years ago the major thrust of these programs was on the generic technology of improvement of manufacturing processes. However, in recent years that thrust has shifted almost totally to another type of generic technology for manufacturing which has been discovered to have far greater potential for productivity improvement, namely that which has come to be known as computer integrated manufacturing.

Thus the lion's share of the research, development and implementation activity being carried out in the European cooperative programs is aimed at application of the computer to on-line optimization and automation of both the soft and hard components of the total manufacturing system. That system starts with design of the product (using computer aided design) and includes such elements as production planning, production control, production equipment and production processes. It is a new and generic technology which has potential for eventual improvement of manufacturing productivity, over the period of the next 15-20 years, by several hundred percent. This recent and highly significant thrust of the European programs is well documented, for example, in the June 1976 report to Congress by the Comptroller General of the United States on "Manufacturing Technology—A Changing Challenge to Improved Production".

The most successful organizational approach to the university participation in these joint government-university-industry cooperative programs, used by most northern European countries, has been through the operation of university research institutes, or "centers of excellence", devoted to the given technologies. Thus for example in West Germany there are three such major institutes devoted to manufacturing technology at the Technical Universities of Aachen, Berlin and Stuttgart (with somewhat smaller institutes at the other German technical universities). The primary thrust of the manufacturing R&D and implementation programs at all three of these major institutes is computer integrated manufacturing. These institutes are well supported by government and industry and are continuing to grow rapidly because of the major contributions their work is making to the overall economic well-being of the country. For example, I learned just last week that the Institute for Machine Tools and Manufacturing Engineering at the Technical University of Aachen, which has a staff of some 400 (graduate students, undergraduate students and full time employees) is now planning a 50 percent increase in staff.

Generation and implementation of productivity-improving technology is not the only benefit arising from this European system of joint government-university-industry cooperation. A secondary but most important benefit is the good supply of highly qualified, industrial-practice-oriented engineers which it produces. They have had the experience of being taught by professors and instructors who are doing research and development to solve real-world industrial problems and they have the opportunity to participate in such R&D themselves. Therefore, as they enter industry they are tuned to its needs and to the new generic technology being developed in the cooperative programs to meet those needs. They thus serve as excellent technology transfer agents for rapid and effective implementation of such technology in industry.

RECOMMENDATIONS

In view of the foregoing, my prime recommendation to this committee and its members is that they give all possible assistance and encouragement to the proposed Department of Commerce Cooperative Technology program. This program, now in an exploratory stage, has resulted from careful study of foreign technology-oriented productivity improvement programs, both successful and not so successful. These have been analyzed to determine the key elements responsible for success in such programs and how these could best be adapted and applied in the American ideology and culture. The resulting plan has the essentials of the very successful European methodologies which I have described above. It calls for joint government-university-industry cooperation in research, development and implementation of technology generic to industrial process or product enhancement and innovation. The key mechanism would be establishment of Cooperative Technology Centers, by joint action, as not-for-profit corporations to carry out such R&D and implementation.

My secondary recommendation would be that the Cooperative Technology Program be encouraged to give first priority to establishment of Centers, and conduct of programs, devoted to R&D and implementation of advanced manufacturing technology, and particularly computer integrated manufacturing, because of the maximum potential such technology has for productivity improvement and the enhancement of the economic well-being of the nation, as set forth above.

DATA CONCERNING WEST GERMAN MANUFACTURING TECHNOLOGY PROGRAMS

Staffing at Manufacturing Engineering Institutes of the Technical Universities at Aachen, Berlin and Stuttgart:

Professors.....	16
Graduate students.....	500
Part-time undergraduates.....	600
Full-time operating staff.....	230

Total (approximate)..... 1,350

Staffing and funding of Machine Tool and Manufacturing Engineering Institute at Technical University of Aachen:

Professors.....	3
Graduate students.....	124
Part-time undergraduates.....	150
Full-time operating staff.....	126

Total (approximate)..... 400

Annual budget approximately \$10 million.

Funding of West German university manufacturing engineering institutes approximately $\frac{2}{3}$ from government and $\frac{1}{3}$ from industry.

Major portion of government funds comes from ministry equivalent to U.S. Department of Commerce (applied research and development).

Minor portion comes from agency equivalent to U.S. National Science Foundation (basic research).

Significant part of funding for computer integrated manufacturing comes from Data Processing Program of the Federal Ministry for Research and Technology, amounting to at least \$100 million dollars of the approximately \$600 million program funding for 1976-79 period.

Senator BENTSEN. Our next witness will be Mr. John White who is Deputy Director of the Office of Management and Budget.

Mr. White, we're aware of your time limitation and if you would give us your testimony, we will proceed with our questioning to you first.

STATEMENT OF JOHN P. WHITE, DEPUTY DIRECTOR,
OFFICE OF MANAGEMENT AND BUDGET

Mr. WHITE. Thank you very much, Mr. Chairman.

I have a rather lengthy prepared statement. With your permission, I'll submit it for the record.

Senator BENTSEN. Yes, that's fine. If you'd limit your remarks then to a summary of 10 minutes, we will proceed.

Mr. WHITE. Yes, sir.

The recent decline in productivity is not well understood and its causes are hotly debated. A major study by Edward Denison estimates more than half of the productivity change from 1948 to 1969 and then from 1973 to 1976 is unexplained. Whatever the cause of this decline, its impact on the rate of inflation is clear: Weak growth in productivity rate, as unit labor costs increase the pressure to raise prices and maintain profit margins. It prevents improvement of living standards, and sharpens the struggle over the income shares that is at the heart of the wage-price spiral.

In the years 1948 to 1965 output per hour of all persons employed in the private economy rose at an average rate of 3.2 percent. This growth rate fell to an average of 2.3 percent in the years 1965 to 1973, and nine-tenths of 1 percent from 1973 to 1978.

In 1978, productivity showed almost no improvement, growing at a rate of three-tenths of 1 percent and a decline in an annual rate of 4.6 percent of the first quarter of 1979.

The measurement of productivity is subject to substantial problems because conventional measures do not take into account improvements in environmental quality, safety of the workplace and health and safety of the consumers. And we have committed substantial amounts of our resources in this country to these goals. Because these improvements are not reflected, yet consumed resources, there is a downward bias as to the conventional measures of output of productivity. However, despite the measurement problems there clearly has been a severe decline in the rate of productivity growth over the past 15 years, and while this decline cannot be explained completely, several contributing factors may be identified. One is the shift in the industrial composition of the economy, especially the movement of workers out of the agricultural and into nonfarm employment, which was largely completed by 1965.

There is a shift in the age experience composition of the labor force. Increasing numbers of young workers with little or no experience temporarily lowered the average experience of the work force. It seems that approximately 0.2 to 0.3 percentage points of the decline meant productivity growth from 1965 to 1973 are due to this factor. But it does not explain the significant fall-off in productivity growth since 1973. During the next 10 to 15 years, productivity should be assisted as these young workers mature.

The capital labor ratio was also a factor. It grew at a rate of 2.1 percent in the nonfarm business sector, 1948 to 1965; at 2.8 percent from 1965 to 1973. However, from 1973 to 1978, this growth fell to an

average annual rate of 1.6 percent, and, in fact, although business fixed investment grew fairly rapidly, 9.4 percent average rate in 1977 and 1978, labor force growth was also exceptionally rapid, and the capital per labor ratio declined. The decline in the capital labor ratio contributed to the post-1973 productivity fall-off, cutting the annual increase in productivity by almost one-half of 1 percentage point.

Part of the slowdown in productivity growth was frequently attributed to a slowdown in innovation. Some studies have emphasized the decline in real R. & D. expenditures in relation to sales: Concentration in military R. & D. during the past decade. However, these studies have not established a strong link between innovative activity and the recent decline in productivity growth.

As I mentioned earlier, environmental health and safety regulations have led to increased capital expenditures, the benefits of which make little or no contribution to measured output in productivity. Denison's work suggests that the direct cost of compliance with environmental health and safety regulations may have reduced the annual growth in measured productivity by 0.2 percentage points during the 1969 to 1973 period, and by 0.4 percentage points in 1973 to 1976.

There has been some concern, particularly recently, with rising energy prices that may hasten the obsolescence of some capital equipment, and thereby contribute to the productivity slowdown. While this factor may have had some impact after the quadrupling of oil prices in 1973 and 1974, the economy now appears to have begun a successful transition to a world of more expensive energy. With energy use per unit of output falling significantly.

Needless to say, further substantial increases in the real energy costs are likely to disrupt the smooth transition that could have unfortunate consequences for inflation, growth, employment productivity on all of these, especially in the short term. So, we all have a limited knowledge of the determinants of productivity change and we need to be aware of this lack of knowledge in consideration of policy.

In particular, we need to be careful about committing substantial dollars to public programs which to venture into these uncertain areas, we also must avoid simplistic answers to what we have found to be complex problems.

Now, there is much uncertainty with regard to the determinants to productivity change, we can nevertheless make some judgments about the general economic environment, which is conducive to stronger productivity growth and the types of policies which would produce such an environment.

The single most important factor for improving productivity growth would be major reductions in inflation. Inflation increases uncertainty and distorts planning. The current anti-inflation effort depends upon restraint of fiscal and monetary policies, coupled with wage and price restraint to moderate inflation without creating a recession.

The President has proposed for fiscal 1980 a budget deficit now estimated at \$28 billion. Congress has responded in the first budget resolution with a restrained fiscal policy that supports these efforts. The Federal Reserve has complemented this tight budgetary policy with restrained monetary growth. Let me emphasize the importance we place on the President's wage-price guidelines. The view that a recession brought about by draconian fiscal and monetary policies

would solve inflation problems is, I believe, mistaken. This was demonstrated in 1974-75, and we did not curb inflation then, but it did discourage investment and worsened present inflation and productivity growth.

The second policy of the administration for improving productivity growth is the improvement of opportunities and incentives for private saving and investment. We are in the process of easing restrictions on interest rates in banks and savings institutions which should improve the rate of savings needed for capital formation and distribute the fruits of savings more equitably.

The 1978 tax legislation also provided substantial incentives to savings and investment. The corporate tax rate was reduced, the investment tax credit was liberalized and made permanent, and the capital gains tax was liberalized. While the structures of these incentives was not precisely that preferred by the administration, we have no doubt that they will make a major contribution to future investment and productivity growth.

Regulatory reform is also a concern and a significant issue. We believe regulations should be limited to those that are necessary and those regulations should be cost effective. In the field of economic regulation, we are attempting to deregulate those industries where regulation inhibits competition and permits prices to be maintained at artificially high levels. The airlines, surface transportation and communication industries are examples where regulation has become anticompetitive. We think that Federal control of the kinds of service that are provided and the rates charged to them should be limited.

Two months ago the President sent to Congress a legislative proposal, the Regulation Reform Act of 1979 that would overhaul the Administrative Procedure Act for the first time in 30 years. It would streamline the entire regulatory process, open it up to broad public participation and reduce the extraordinary delays that characterize it today. Put in statutory form, many of the key elements of this administration's program which could reduce the burden of regulation, because unnecessarily costly regulations contribute to the low productivity growth. We have acted vigorously to assure that new regulations are cost effective and that existing ones are subject to some set review.

In March of 1978, by Executive order, the President required the regulatory agency heads to establish new procedures, including strict analysis of regulatory alternatives in their rulemaking efforts. The order requires that the agencies choose the least burdensome method of regulation. We have established the Regulatory Analysis Review Group, chaired by the Council of Economic Advisers and a regulatory council to improve management effectiveness and coordination. A regulatory calendar will be published every 6 months so that the public will have early notice and can work to assure the most reasonable form of regulation.

The administration has also initiated major international trade and monetary policies to increase efficiency and investment. The actions taken last November 1 have improved exchange rate stability and confidence, and the investment climate. The MTN recently concluded in Geneva should contribute to efficiency in the domestic economy, enhanced opportunities for U.S. exports and a new investment in the U.S. export sector. Increases in the share of our national product produced for export will raise overall productivity and incomes.

Recognizing the importance of this issue to the Nation, President Carter established a National Productivity Council in October of 1978 to improve the coordination of Federal programs designed to improve productivity in the private and public sector.

The Council was addressing a wide range of specific issues. These include the improvement of productivity statistics, determining the proper Federal role in supporting State and local government productivity improvement efforts, improving Federal employment productivity through the Civil Service Reform Act, assisting and developing a recommendation of the industrial innovation study project, and expanding the response to the Federal-labor management committee's program, and analyzing specific groups which have had serious downturns in their productivity.

I hope this statement demonstrates the breadth of the administration's concern with the issue of productivity. As I have indicated, we do not believe that there is any one answer to the problem of sluggish productivity growth. Rather, we believe that the broad range of policies that we have initiated will establish a climate in which vigorous economic growth can be sustained.

Thank you, Mr. Chairman. I would be happy to answer any questions.

Senator BENTSEN. Thank you, Mr. White.

[The prepared statement of Mr. White follows:]

PREPARED STATEMENT OF JOHN P. WHITE

Mr. Chairman and members of the committee, I am pleased to be here this morning to discuss the recent slowdown in productivity growth and the role the Federal Government can play in improving productivity.

The recent decline in productivity growth is not well understood, and the causes are hotly debated. But whatever the causes, it is clear that slow productivity growth makes our effort to bring inflation under control more difficult. Weak productivity growth raises unit labor costs and increases the pressure to raise prices to maintain profit margins. Moreover, low productivity growth puts pressure on living standards and sharpens the struggle over income shares that leads to the wage-price spiral.

I will begin with a brief discussion of major trends in productivity and a comparison of recent experience with that of the first two decades of the postwar period. This is followed by an analysis of some of the factors related to the recent decline in productivity growth. I will then turn to the specific issues that the Committee asked me to address: the Federal Government's efforts to promote higher productivity growth in the private sector and the current and prospective programs and policies to achieve this goal.

HISTORICAL PRODUCTIVITY PERFORMANCE

In my discussion, productivity refers to output per hour of all persons employed in the private business economy, the largest sector for which there are aggregate measures. Although this measure relates output to employment and employee hours, it does not measure the specific contribution of labor, capital or any other agent of production. Rather, it reflects the joint effect of interrelated influences, such as capital investment, the skills and educational attainments of workers, utilization of capacity, managerial skills, innovations, and changes in technology.

I should note that there are very substantial problems involved in the measurement of productivity, and that in some important respects the data can be quite misleading. It is well recognized that our conventional measurements of national product do not take into account improvements in the quality of the environment, such as clean air and clean water, in the safety of the workplace, or in the protection of the health and safety of consumers in many situations. We have committed very substantial amounts of our resources to these concerns in recent years, and because the data reflect no output stemming from these inputs, conventional productivity measurements will have a downward bias. There are also severe

measurement problems in relation to new products, such as microtechnology, and in the measurement of services, where we are often forced to estimate outputs by measuring inputs, and thereby have productivity measures that are little more than tautological.

Nevertheless, despite these reservations, there undoubtedly has been a severe decline in the rate of productivity growth during approximately the last 15 years, and especially during the last 5 years. Output per hour of all persons employed in private business economy increased at an average rate of 3.2 percent per year from 1948 to 1965. The annual growth rate fell to 2.3 percent in 1965-73 and to 0.9 percent during 1973-78. (See table 1.) Some of this slowdown can be attributed to the severity of the 1974-75 recession, which left many industries with large unused capacity and thus discouraged capital spending. But even when adjustments are made for the relatively low capacity utilization during most of the 1970's, it is evident that the economy has suffered a major decline in the trend of productivity growth. Productivity showed essentially no improvement in 1978, growing at a 0.3 percent, and declined sharply at a 4.6 percent annual rate in the first quarter of 1979.

FACTORS BEHIND THE PRODUCTIVITY SLOWDOWN

Many explanations have been offered for this decline, including the effects of shifts in the industrial composition of the economy, a less experienced labor force, a decline in the rate of innovation, a decline in the growth of the capital/labor ratio, increased government regulations, higher relative prices of energy, and changes in attitudes toward work. In fact there is no single or even dominant explanation, and there is no general agreement about the quantitative effects of various factors. Some can be identified with reasonable certainty while others are more controversial and even speculative. Let me discuss briefly some of the more important factors:

Intersectoral employment shifts.—From 1948 to 1965 a sizeable boost to productivity growth, probably about 0.4 percentage points per year of the 3.2 percent total, came from the movement of workers out of agriculture and into nonfarm employment, mainly manufacturing. Because the level of output per hour is considerably higher in the nonfarm than in the farm sector, this shift raised overall productivity growth. Since 1965, however, the movement of workers out of the farm sector has virtually ended and additional gains have not been forthcoming. Consequently, part of the slowdown between 1965 and 1973 in relation to earlier years reflected this development. The secular shift in the composition of output and employment towards the service-producing industries has also contributed to lower aggregate productivity growth in the most recent period, as these industries in the aggregate experienced a sharper productivity slowdown than occurred in manufacturing.

Shifts in the composition of the labor force.—During the last two decades, the average experience of the work force has been temporarily lowered by the influx of large numbers of young workers with little or no job experience. The proportion of workers age 16 to 24 of the employed labor force increased from about 19 percent in 1965 to 24 percent in 1973, and to 25 percent last year. Although the effect of age composition is difficult to quantify, rough calculations made by the BLS and others suggest that 0.2 to 0.3 percentage points of the productivity fall-off from 1965 to 1973 are due to this factor. However, since 1973 age has been much less important as a productivity depressant, as the large cohort of new workers who entered the labor force between 1965 and 1973 have acquired experience. During the next 10 to 15 years, productivity growth should be assisted by the change in age composition, as today's young workers mature and acquire more experience and the proportion of young workers shrinks.

Capital per worker.—The decline in the growth of productive capital relative to labor inputs is partly to blame for the decline in productivity growth. The capital-labor ratio, measured by the ratio of real net stock of equipment and structures to aggregate employee hours, which had been growing at a rate of about 2.1 percent a year during 1948-65 and 2.8 percent from 1965 to 1973, fell to a growth rate of about 1.6 percent from 1973 to 1978. Lower investment during the 1974-75 recession and the early stages of the recovery was a factor in the relatively slow growth of net capital. This was due largely to the unused capacity in many sectors and to the apparent unwillingness of business to take risks in the face of uncertainties about energy prices, regulatory changes, and inflation. Real business fixed investment advanced at a rapid 9.4 percent average annual rate in 1977 and 1978, however, and reached a high of 10.7 percent GNP by the last quarter of 1978. The productivity gains from this recent strong investment experience will be realized only later.

Estimation of the effect on productivity of changes in the capital/labor ratio is difficult, both because of lags, and also because growth in the capital stock usually entails technological innovations that are embodied in new capital equipment. Unfortunately, it is not possible to fully separate the contribution of capital growth per se from that of the associated technological changes. Nevertheless, most investigators attribute part of the productivity slowdown to a fall-off in the rate of capital formation. Capital per worker actually grew faster in the 1965-73 period than during 1948-65, and therefore did not add to the 1967-73 productivity slowdown; however, it did contribute to the slowdown after 1973, cutting the annual increase in productivity by almost one-half of 1 percentage point, according to some estimates. This occurred in spite of the rapid growth in business fixed investment in 1977 and 1978 because the labor force also grew very rapidly during these years.

Innovation.—Part of the slowdown in productivity growth is frequently attributed to a slowdown in innovation—a reduction in the rate at which new technology is devised and adopted. Existing evidence does not resolve this issue clearly. Some studies have pointed to the apparent decline in military R. & D., measured in constant dollars, during the last decade, and to impediments that new government regulations may have placed in the way of the adoption of new technologies, but they have not been able to establish a strong link between innovative activity and the decline in productivity growth in recent years. In spite of this, there is general agreement that the technological preeminence of the United States is no longer as great as it once was. What is less certain is whether the relatively rapid growth of technological capacity in other countries reflects shortcomings in U.S. innovation and policy, or whether it is the inevitable result of an increasingly integrated international economy in which technological superiority is increasingly difficult to maintain.

Environmental and other regulations.—Mandatory environmental health and safety regulations have led to higher capital expenditures, the benefits of which are difficult to quantify and are not reflected in our national economic accounts. According to Edward Denison, who has produced the major study of this subject, the direct costs of compliance with environmental, health, and safety regulations may have reduced the annual growth of measured productivity in the private nonfarm sector by 0.2 percentage points in the 1969-73 period and by 0.4 percentage points in 1973-76.

Other factors.—Other factors have been mentioned as possible contributors to the productivity slowdown. These include increased energy costs that may have rendered some capital obsolete and encouraged the substitution of labor for capital, as well as changes in attitudes toward work. But the quantitative impact of these factors on productivity has not been clearly established. If changes in the work ethic have occurred, one would expect them to be gradual, and not produce the sharp break in productivity growth experienced after 1973.

In summary, then, the trend rate of measured productivity growth declined by 0.9 percentage points between the 1948-65 and 1965-73 periods. Much of this decline can probably be explained by three major factors: the employment shift from farm to nonfarm sectors, compositional changes in the age-experience of the workforce, and environmental and safety regulations.

The further deterioration in productivity growth during 1973-78 is less well understood. Sectoral and demographic changes in labor composition were not very important. The decline in the growth rate of the capital-labor ratio probably was important, as were the added costs of environmental and safety regulations. Mining and utilities, which were required to invest heavily to meet government regulations, actually experienced annual rates of decline in the level of productivity during this period of 5.3 percent and 0.4 percent respectively.

We still have a very limited knowledge of the determinants of productivity change and we need to be aware of this lack of knowledge in consideration of policy. By Denison's estimates, more than half of the productivity change from 1948-69 to 1973-76 is unexplained.

Looking into the future, there is room for some optimism. Demographic changes over the coming decade should have a positive impact on productivity; constructive changes in our approach to regulation have begun to appear; and there is general consensus on the need to promote a higher rate of capital formation.

The rest of my remarks will be addressed to some implications of the current situation for government policy.

POLICIES AND PROGRAMS TO IMPROVE PRODUCTIVITY

As I have indicated, the recent productivity decline is not well understood. Only about half of the recent slowdown in productivity can be fully explained; the other unexplained portion is really a measure of our ignorance. Given the state of the art, we must be honest about what we can and cannot do to improve the economy's productivity performance. We need to avoid simplistic answers to a complex problem. We especially need to avoid the assumption, made too often in the past with respect to other problems, that we can solve the problem by developing expansive government programs when our difficulties are likely to be related primarily to underlying economic conditions.

Let me first note that growth in productivity is important not as an end in itself, but because of its contribution to the goals of economic stabilization and growth. It relieves inflationary pressures by lowering unit costs of production and mitigating the fight for shares of income that underlies the wage-price spiral. And it is the source of long run growth in real per capita income, perhaps the most important long-term goal of economic policy.

We can certainly make some judgments about the general economic environment which is conducive to stronger productivity growth and the types of policies which would produce such an environment. There is general agreement that the sector inflation of the past decade, by increasing uncertainty and distorting planning, and perhaps by reducing incentives to save and invest, has impaired investment and productivity. Probably the single most important policy for improving productivity growth would be a major reduction in inflation and inflationary expectations. Second, we need to improve the opportunities and incentives for private savings and investment. Third, we must assure that new regulations are cost-effective, and existing regulations are necessary. Finally, we need to promote fair competition domestically and internationally to encourage increased efficiency. Let me indicate how this Administration's policies have dealt with these major areas of economic concern.

Policies to moderate price inflation.—Inflation remains our most severe and most intractable problem. The current anti-inflation effort depends upon restrained monetary and fiscal policies, coupled with wage and price restraint, to moderate inflation without creating a recession. The President proposed a budget deficit for fiscal year 1980 now estimated at \$28 billion. We are pleased that the Congress has responded with a First Budget Resolution which adopts this essential principle of fiscal restraint. The Federal Reserve has complemented this tight budgetary policy with restrained monetary growth. We have no doubt that these policies will bear fruit in coming months, as we move into fiscal year 1980. Indeed, the economy has already slowed considerably, consistent with a substantial deceleration of government spending during the current fiscal year and restrained Federal Reserve monetary policy. The economic slowdown will help to ease upward pressure on prices and costs.

Let me emphasize, at this point, the importance we attach to the President's wage-price standards. Without doubt, fiscal restraint is the central element of our anti-inflation policy. Without it, nothing else would make sense. But there is a popular view in some circles that a recession would take care of the inflation problem, that draconian monetary and fiscal policies alone would do the trick, and that wage and price standards are not needed. I believe this view is profoundly mistaken. A recession, especially if severe, would reduce capital formation for a significant period; this would reduce productivity growth and raise future inflation. This was amply demonstrated by the experience of the 1974-75 recession which, although the most severe since the 1930's, did not cure us of inflation. What it did do was to discourage investment and thus worsen our present situation with respect to both productivity growth and inflation.

For the longer term, restrained budgetary policies are essential to restrict the capture of our resources by the public sector and to release more of them for private sector use, which will normally contribute to overall investment and productivity growth.

The Administration has moved forcefully to limit government spending. As a proportion of GNP, Federal expenditures have declined from the high water mark of 23.4 percent in 1975 to about 22 percent in 1978 and a projected 21 percent by 1980. Further reductions can be anticipated in the future.

Policies to encourage investment and savings.—This administration has also taken measures to strengthen investment and savings. We are in the process of easing

restrictions on interest rates in banks and savings institutions, especially for small savers, which should both raise the rate of savings needed for capital formation and distribute the fruits of savings more equitably.

The 1978 tax legislation, which generally became effective in January, provided substantial incentives to saving and investment. Under this legislation, the corporate tax rate was reduced, the investment tax credit was made permanent and liberalized, and the capital gains tax was liberalized with the effect of reducing the top effective tax rate from 49 percent to about 28 percent. The proportion of total tax reduction provided by the measures in this legislation was considerably higher than in most previous tax cuts, evidencing the concern with the problems we are discussing today. While the structure of these incentives was not precisely that preferred by the administration, we have no doubt that they will make a major contribution to future investment and productivity growth.

REGULATORY REFORM

The effect of Federal regulations on our economy is far-reaching. It is essential that regulations be limited to those that are necessary, and that those regulations in turn be as cost-effective as possible.

Federal regulation began nearly 100 years ago with the creation of the ICC in 1887, as the Congress began to create regulatory agencies to limit undue power in the marketplace and preserve competition. In the middle of this century, Federal regulations began to be used to serve a very different purpose—to achieve the broad social goals set by the Congress. Between the end of the 1960's and the mid-70's, Congress created 26 new regulatory agencies to deal with such priorities of our society as cleaning up and protecting the environment and ensuring a safer workplace.

Recognizing the differences between economic and social regulations, the administration has followed a two-pronged approach to regulatory reform. In the field of economic regulation, we are seeking to deregulate those industries where regulation inhibits competition and permits prices to be maintained at artificially high levels. In the area of social, safety, health and environmental regulation, we are moving to ensure that rules are as cost-effective as possible.

Our deregulation efforts began with the airline industry last year. Since deregulation, airfares have dropped and industry profits are up—demonstrating how economically healthy competition can be. We are now moving to deregulate the surface transportation industry—railroads, trucking, and inter-city buses. Communications and banking are other industries where regulation has become anti-competitive. We believe that Federal control should be minimized over the kinds of services provided and the rates that can be charged for them.

Since taking office, this administration has been deeply concerned with improving the management of the regulatory process so that necessary regulations achieve their objectives in the most effective manner. Two months ago, the President sent to the Congress a legislative proposal—the Regulation Reform Act of 1979—that would overhaul the Administrative Procedure Act for the first time in 30 years to streamline the entire process, make it more predictable, open it up to broad public participation, and reduce the extraordinary delays that characterize it today. This legislation builds on several steps we have taken since coming to office to improve regulatory management.

MORE EFFECTIVE REGULATIONS

Recognizing that unnecessarily costly regulations can contribute to productivity decline, we have acted vigorously to assure that new regulations are cost effective and that existing regulations are subjected to "sunset" reviews. By Executive Order 12044 (in March 1978), the President required regulatory agency heads to establish new procedures, including strict analysis of regulatory alternatives, in their rulemaking efforts. The Order requires that the least burdensome acceptable alternative means of regulating be chosen by the agency head. We have established the Regulatory Analysis Review Group, chaired by the Council of Economic Advisers, to subject the economic analyses of major regulations to a review by the Executive Office of the President and other agencies. We have established a Regulatory Council to improve management effectiveness and coordination, and are publishing a Regulatory Calendar every 6 months, showing upcoming significant regulations, so that the public and those affected will have early warnings, and can work to assure the most reasonable alternative forms of regulation.

We do not seek to move away from the goals of the landmark health, safety environmental legislation enacted over the past decade. On the contrary, we are taking these steps to make regulations more cost effective because economically efficient regulations have a much better chance of achieving their objectives. In most cases, cleaner air, cleaner water, healthier workplaces, and safer consumer products must be achieved through the activities of private firms. Regulations seek to change the decisions of business firms from what they would have been in the untrammelled marketplace. How well regulations succeed depends upon how those regulations interact with a highly complex system that is principally driven by monetary incentives and economic relationships.

To be successful over the long term, for example, a regulatory program to prevent significant deterioration of air quality must take into account a host of different economic conditions. In particular, it must encourage the most valuable economic use of the limited pollution increment. Otherwise, economically wasteful uses of the increment are likely to stifle or unbalance growth as to lead to irresistible pressures to relax or abandon the limitations on the increment. Careful economic analysis can help regulators to take account of this fact.

Yet obviously measurement of these costs alone tells us nothing about whether they were worth incurring. It does not even tell us whether a particular regulation, or indeed all of them taken together, were or are actually inflationary: that, again, would depend on whether the costs exceeded the benefits. And the contribution to diminished productivity growth could well be apparent only in a reflection of the failure of traditional calculations of productivity changes to include external costs: naturally, if those costs were left in the base period to be borne by others and then the perpetrators are forced by regulations to devote labor, capital and other productive resources to their abatement, it will look as though the labor and capital have become less productive, because it takes more of them than before to produce the products in question.

We are concerned about the economic efficiency and costs of regulations for other reasons as well. Regulations require that resources be channeled from other purposes to meet such goals as cleaner air or water. The objectives are important, but the resources required to meet them are not free. Resources devoted to paying for the costs of complying with one set of regulations cannot be used for consumption or for investment in new plants or machinery. According to the latest annual report of the Council on Environmental Quality the costs of complying with environmental regulations, measured in dollars of constant purchasing power, will rise from \$19 billion in 1977 to \$52 billion in 1986. Additional scores of billions will be required for occupational, transportation, and consumer health and safety, and for energy conservation regulations.

The effects of using such large amounts of resources can be substantial for individual firms and for the economy as a whole. Regulatory decisions can affect the ability of individual firms to compete with others in their industry, and the ability of industries to compete in world markets. There is no question that resources channeled away from investments in new plant and equipment can affect the growth of our economy's productivity. That is a fundamental reason for this administration's concern about the manner in which regulators decide what resources should be used to meet statutory objectives.

International trade and monetary policies to increase efficiency and investment.—The last few months have witnessed major efforts in international trade and monetary policies to increase efficiency. The actions to stabilize the dollar taken last November 1 have been dramatically successful, contributing to a marked improvement in exchange rate stability and confidence, which has improved the investment climate. The MTN recently concluded in Geneva should contribute to efficiency in the domestic economy, enhanced opportunities for U.S. exports, and new investments in the U.S. export sector, where productivity tends to be high. Increases in the share of our national product produced for export will raise overall productivity and incomes in the economy.

In these negotiations, the U.S. reached agreement with its trading partners to reduce tariff rates by approximately 30%. More importantly, major nontariff barriers to trade are to be reduced. For example, common sets of rules on customs valuation and standards (e.g., health) have been agreed upon. Also, the governments have negotiated limits on their ability to subsidize exports. The administration has been working closely with Congress to develop legislation to implement the results of the trade negotiation. When completed, this legislation would enhance free trade and promote higher rates of efficiency worldwide.

National Productivity Council.—President Carter established the National Productivity Council in October, 1978 to improve the coordination of Federal programs designed to improve productivity in the private and public sectors. We estimate that these expenditures exceed \$900 million per annum. We are also moving to establish innovative projects that will stimulate public and private productivity.

The Council is addressing a wide range of specific issues, including: the improvement of productivity statistics; determining the proper Federal role in supporting State and local government productivity improvement efforts; improving Federal employee productivity through the Civil Service Reform Act; assisting in developing the recommendations of the industrial innovation study project; expanding the federally sponsored labor management committee's program; and analyzing specific industries which have had serious downturns in their productivity.

The Council is not intended to be a substitute for the economic decisionmaking machinery of the Federal Government. It is designed to be an interagency forum for assuring that the Federal programs for improving our productivity performance are coordinated and effective.

I hope that this statement demonstrates the breadth of the Administration's concern with the issue of productivity. We do not believe there is any one answer that will provide an increase in the rate of productivity growth. We do believe that the broad range of policies and programs we have initiated will establish the climate in which real economic growth can be sustained—for that is the final answer to our mutual concern with the productivity of our economy and our society.

I will be pleased to answer your questions.

TABLE 1.—PRODUCTIVITY GROWTH RATES, PRIVATE BUSINESS SECTOR, 1948-78

[Average annual percentage change]

	1948-65	1965-73	1973-78	1977-78
Sector:				
Private business.....	3.2	2.3	0.9	0.3
Nonfarm.....	2.6	2.0	.8	.5
Manufacturing.....	3.1	2.4	1.7	2.4
Nonmanufacturing.....	2.4	1.7	.3	-.4

Source: U.S. Department of Labor, Bureau of Labor Statistics (BLS).

TABLE 2.—PRODUCTIVITY GROWTH BY MAJOR INDUSTRIAL SECTORS, 1948-77

Sector:	Average annual growth rate, percent		
	1948-65	1965-73	1973-77
Mining.....	4.2	2.0	-5.3
Construction ¹	2.9	-2.2	.4
Manufacturing.....	3.1	2.4	1.6
Durable.....	2.8	1.9	1.2
Nondurable.....	3.4	3.2	2.2
Transportation.....	3.3	2.9	.9
Communication.....	5.5	4.8	7.0
Utilities.....	6.2	4.0	-.4
Trade.....	2.7	3.0	.4
Wholesale.....	3.1	3.9	.1
Retail.....	2.4	2.3	.4
Finance, insurance and real estate ¹	1.0	-.2	1.8
Services ¹	1.5	1.9	-.3
Government enterprises.....	-.8	.9	-.7
Agriculture.....	5.6	5.4	4.3

¹ The output measures for these sectors as measured in the national income and product accounts are judged to be inappropriate to support publishable productivity series. BLS reports productivity for these sectors only as an aid in understanding productivity changes in large aggregates.

Source: Bureau of Labor Statistics.

Senator BENTSEN. Mr. White, we'll direct our questions to you first since you are under a time constraint.

The question of productivity has been a concern of several recent administrations and of this administration. The National Productivity Council was put into effect, for example, last October to direct this administration's efforts on productivity.

Now, the NPC is the most recent of a long line of entities designed to be the focal point of our national productivity effort. That list includes the National Commission on Productivity which died in 1974. The National Commission on Productivity and Work Quality, which died shortly after it was proposed. The National Center for Productivity and the Quality of Working Life which died last September. Now, you've got a new council, and a really impressive group of people serving on it: The Secretaries of Commerce, Labor, Treasury, and the heads of the Office of Personnel Management, the Council of Economic Advisers, the Council on Environmental Quality, the Council on Wage and Price Stability, the Office of Science and Technology Policy, the Office of the Special Representative for Trade Negotiations, and of course, OMB. It sounds like it's everybody's business and nobody's business. It's been in place for over 7 months. You say you've developed a broad array of objectives.

I want you to be more specific in your statement about the programs and the plans. In your prepared statement you talk about innovative projects that will stimulate public and private productivity. Tell me what they are.

Mr. WHITE. Let me first, with your permission, Mr. Chairman, give a little introductory comment. And that is to say that I think it would be a mistake, certainly in my view it would be a mistake, I think, to emphasize that the only place that we're going to worry about productivity in this administration or in planning for economic growth is in a productivity council. I think that is a serious mistake.

I tried to indicate in this statement much of this has to do fundamentally with the economic health of the country and with the growth rate of the society. In combating inflation many of those fundamental issues are taken up not only here, but more regularly in regular forms, such as the economic policy group that is chaired by Secretary Blumenthal. So, there are a number of vehicles that the administration uses in order to attack these problems.

Now, let me speak to your question for the record. We have been in place, as you indicated we do have an array of people who are in various ways concerned with these issues. We are currently looking at a number of areas. OPM is reviewing and will be proposing soon recommendations with respect to the relationship of State and local governments. We have in the budget process, and also through this council, reviews looking at Federal productivity, specifically whether or not we shouldn't have some programs that in fact reward people in the Federal sector for productivity. We have a major review chaired by the Commerce Department which we will be sending to the President in the near future—the so-called innovation study—and that has a vast array of proposals in it. Some of them relate to tax policies, some of them relate to regulatory reforms, and some of them relate to specific spending programs. Now, we're not through with that review yet, Mr. Chairman, so I am afraid that I am not in the position to indicate to you exactly what will be recommended at the present, but we will be doing that soon.

Senator BENTSEN. But you haven't gotten down to the specifics of these innovative programs or the recommendations of them, yet.

Mr. WHITE. We are there in terms of reviewing it, Mr. Chairman. We have not provided the President with it.

Senator BENTSEN. So, you are studying it?

Mr. WHITE. Yes, sir.

Senator BENTSEN. Now, the other point you were discussing was the question of capital formation and capital growth in this country. You spoke about an unhealthy rate of fixed business investment in the last 2 years. You also spoke of the decline in the capital-labor ratio. Yet, we talked about trying to increase capital investments and savings. How do you reconcile those themes with some of the things that were done in the 1978 tax bill? I recall that the administration fought like the devil against a capital gain tax cut to spur savings, and I recall they fought very hard against my attempts to increase accelerated depreciation by 50 percent to spur investment. I got it through the committee, and you fought it there. And, then you fought it on the floor.

Bill Miller testified that there were more results from depreciation as far as the modernization of the productive capacity of this country is concerned than from any other kind of tax approach. So, it seems to me that you've got yourself in a paradox here. We are talking about trying to increase productivity, which means raising the cash flow so you can modernize the manufacturing capacity of this country. Mr. Merchant says that's where two-thirds of the increase in wealth in this country comes from. Mr. Arai talks about the increase in technology and how Japan has really moved ahead on that. Now the Congress is trying to do that, and yet the administration opposes a major accelerated depreciation approach.

On the one side you say you want a balanced budget. Now, I understand that. But, that's in the short term, and that's by the next election. But, we've got to make a major investment in modernizing our productive capacity of this country, and I don't know any better way to do it than really stepping up depreciation schedules in this country, thereby providing the cash flow to do it.

But every time I get an estimate out of the Treasury, they give me a static revenue estimate, not what's going to result from the modernization of our productive capacity. What is going to happen to our world trade position? What is going to happen to our dollar? What is going to happen to inflation if we can modernize our productive capacity? Doesn't the administration want to accomplish these objectives? Do we have to force it on you, or is the administration going to make some positive commitments on things that need to be done with taxes to modernize the productive capacity of this country?

Mr. Arai talked about Japan—about the highest percentage of income of any nation in the world being invested back in the modernization of their manufacturing capacity. This nation is the lowest, and the country next to us is England.

Now, what is the administration going to do?

Mr. WHITE. I'm not, unfortunately, because it's too early, Mr. Chairman, able to speak to the administration's initiatives with respect to the 1981 budget as they relate to tax policy. We are obviously deeply concerned about these problems. We are looking at various alternatives in terms of ways that we can enhance private

investment, because I agree with you that private investment is obviously the key to all of this, and we will be reviewing those when we review the 1981 budget.

At the same time, as you recognize, we have these other constraints from tax rates overall, and in terms of the spending rate for the Federal sector. We're committed, the President's committed, to getting that down.

Senator BENTSEN. I'm not arguing with you about cutting back on Government spending or public sector spending—I am not arguing with you about that. What I am arguing with you about is that you will not encourage private sector spending to spur productivity. That is what the report of this Joint Economic Committee in its annual report talks about. That's the direction we ought to be moving, trying to work on the supply side, instead of stimulating of the consumption side.

Mr. WHITE. I understand your point, Mr. Chairman. We are doing another review because of these problems, but it's too early to be specific about what the outcome of that review will be.

Senator BENTSEN. I had hoped the administration won't just give us lipservice on productivity by saying, "We have got studies going." I want to see some positive, affirmative recommendations.

Mr. WHITE. I understand.

Senator BENTSEN. Senator Proxmire.

Senator PROXMIRE. Mr. White, I understand that you have to leave so I will try and concentrate my questions on you before I get to Mr. Merchant and Mr. Arai.

Mr. White, did you have anything, did you play any part, or did your Office play any part in the conclusion by the Council of Economic Advisers that productivity in this country would be expected to be only increasing at an 1.5-percent rate over the next 5 years?

Mr. WHITE. We worked closely with the Council, Senator Proxmire.

Senator PROXMIRE. That's a decline from a long-term increase which I understand has been about 3 percent.

Mr. WHITE. We have generally worked closely with them and generally agree with their estimates. I think in this case it's fair to say that we are as concerned as they are in terms of what they have written in the Economic Report.

Senator PROXMIRE. It seems to me that part of this is the very unsatisfactory data we have on productivity.

Mr. WHITE. That's correct.

Senator PROXMIRE. For example, when we do things like requiring firms to adopt measures that will reduce water pollution and air pollution, and they adopt them and put them into effect and we get cleaner air and cleaner water, that's not considered to be, as I understand it, that's not considered to be a product. They don't sell it. So that it doesn't increase productivity for a technical reason. And yet I defy anybody to tell me that clean water isn't more important than producing more Coca-Cola. We produce more Coca-Cola to rot people's teeth and so forth and drop into an early grave, and more brandy or liquor that increases the gross national product. That's productive.

But if we produce cleaner water, no; it doesn't count, because it's free. The same thing is true as far as air is concerned. Isn't that right?

Mr. WHITE. Yes, sir. With your permission, I won't speak to Coca-Cola. [Laughter.]

Senator PROXMIRE. That's Georgia. I shouldn't have brought that up.

Maybe beer. That's produced in Wisconsin.

Mr. WHITE. I agree with you. I indicated in the prepared statement, Senator Proxmire, that I think that is a problem we have to recognize up front. That is, there is more that this society wants than just productivity.

Senator PROXMIRE. I wouldn't say that. I would say that we ought to find a way, an objective way to the extent we can, that we are more productive if we improve health and improve safety and so forth. Mr. Arai very properly pointed out that Japan has been suffering from pollution of their water and pollution of their air because they proceeded at such a high rate, they had to reckon with it.

Mr. WHITE. We have a major review underway with respect to the productivity statistics which highlights many of these problems, but I must say it is a very difficult problem to capture those benefits in some numbers.

We have not been able to find a way to do it. That is, the benefits from health, safety, and other regulatory activities.

Senator PROXMIRE. Now, let me ask you this, because you won't be here tomorrow and you are such an important agency in that respect, the Office of Management and Budget, with respect to Government productivity.

In order to increase Government productivity and to give them the motivation that they can never really have that the private sector has, they are driven by a profit motive, that is a real engine in forcing better productivity. How about a 5-percent reduction in the work force by attrition and a change in civil service regulations to make promotion dependent on increase in productivity rather than on the numbers of people supervised?

For instance, there is a motive if you are in the public sector, to have the biggest agency possible, to resist any productivity improvements that would cut the number of people under your jurisdiction.

Mr. WHITE. Well, first of all, as you know, the administration has kept the employment numbers in the Federal sector constant. When the President came into office—

Senator PROXMIRE. I'd like to see him cut it.

Mr. WHITE. He intends at least to continue to do that. I might add, Senator Proxmire, as you well know, there have been in that time a number of mandated increases in employment in various programs, either by the administration or by the Congress.

Second, we see, and Mr. Campbell can speak to this tomorrow as well, the civil service reform legislation providing us with a major opportunity to get a handle on this incentive problem. We are in that position because of the incentive structure that we have provided for supervisors and for the senior executive service to specifically build into the performance appraisals what people have done in terms of productivity, in terms of making the Federal sector work better, and we are working with all of the agencies in order to do that, in order to get people promoted for that measure rather than how many people they supervise, or some other measure.

And we are relatively optimistic. I think we can do a good deal on that.

Senator PROXMIRE. I know your time is limited, so I will just ask one other question. Have you had an opportunity to make a study on the relationship between Government spending and on R. & D.—research and development—and productivity? There's an automatic kind of instinctive reaction to stand up and salute when somebody says research and development. But the fact is, as I understand it, we spend more money on research and development, more than all other countries in the world combined, more on a per capita basis than Japan does, and about the same as Germany, but ahead of almost every other country, and yet our productivity is performing so poorly.

I think that this merits a very fruitful inquiry as to why that's so.

Mr. WHITE. I think that's true, Senator Proxmire. Let me just say that the administration has been emphasizing basic R. & D. over the last several budgets, including the 1980 budget. We think it's important. We think the linkage between that and productivity is clearly tenuous.

Senator PROXMIRE. You ought to spell it out and find out what's happening to all these billions and billions of dollars that we put every year into R. & D. that does not result in more productivity.

Mr. WHITE. Yes, sir, I think that's right. As you know also, much of that is measured in the defense network. I think there's a serious question how much of that translates back into—

Senator PROXMIRE. I think we can exploit that better than we have been doing in the commercial area. Some of that research in the defense area is very, very useful and very helpful. The principal advantages we've gotten in the airline area, for instance, and aircraft production, much of it at least came from defense R. & D. Many of the research initiatives we have had in the space area have been translated, as well.

Mr. WHITE. I agree. When you look at that, all I am suggesting is that much of that total budget is not directed specifically at the issue of increased productivity. And it's a large portion of the total R. & D. spent by the Federal Government.

Senator PROXMIRE. Thank you, Mr. Chairman.

Senator BENTSEN. Congressman Brown.

Representative BROWN. Mr. Chairman, thank you very much, and thank you for having these hearings because I think they are extremely important for the future of the American society. Everybody is worried about us. I attended a breakfast this morning with the French Minister of Energy who was trying to encourage us to take some positive steps to resolve our problem, not because of a return to the Lafayette principle, but rather out of pure selfishness. Because, they see that if we contribute to the inability of other nations to address the energy crisis worldwide, that everybody goes down, and that we have a serious problem.

I listened, while I was out in Ohio this past weekend, to Barry Bosworth, of the White House staff discuss the methods by which we terminate inflation. First, he suggested that there would be a recession brought on by tight money policies and so forth, a monetary addressing of the problem, which would cause unemployment and recession, and second, the voluntary wage and price controls. He said very emphatically at this presentation—this was a lecture that he was giving on means of dealing with inflation—that mandatory wage and price controls would only work for about 6 months and then would fall apart.

I came to discover that he apparently hinted yesterday, or sometime recently, at the possibility of mandatory wage and price controls which, of course, further take out of our society the incentive to do the things that are being addressed in the testimony by Mr. Merchant.

Now I am concerned that we not become a third-rate power. I see some arguments that we may already be becoming a second-rate power in certain areas. The Germans, for instance, apparently are becoming more significant as an export nation than we are. And we cannot supply markets around the world competitively. The Germans are ahead of us in this regard. And I must say that Mr. Merchant's own company exports fewer pieces of equipment than it used to. Since it is located not far from my district, I have some vested, although not personal interest in it, because it employs people in our area.

Is there anybody in the Office of Management and Budget who has read the Joint Economic Committee's report on the economy this year? Are you aware?

Mr. WHITE. I have not read it in its entirety, Congressman Brown. I'm sure that our economists have read it. I cannot certify.

Representative BROWN. Did it do other than become an academic effort, or did they take any advice from this about where the economy ought to be headed? It occurs to me that a lot of people are looking for answers to the question. I heard one of my female colleagues, who represents a blue-collar minority district not far from here—I shall leave her nameless—say in a presentation the other day that she was disillusioned and her fellows were disillusioned with the prospect for the success of Keynesian economics, and they would like new answers.

I intend to have a prayerful session with her at which I will review some of the things that have been said in the Joint Economic Committee report for this year.

But there is an effort in that report to get to the question of supply-side economics. In other words, our ability to produce the technology, the new equipment, that which makes labor more productive in this society. And I wonder if you might take it as a personal mission to give Mr. Bosworth a copy of that report. I won't even ask you to wait until you've read it. I hope he will see that there is another answer besides recession and besides either voluntary or mandatory wage/price guidelines to deal with this problem.

If we can encourage the expansion of American productive capacity, that is technological ability and machinery, it seems to me the way to do that is through tax policy. Because you have to do it through savings, you have to get people to put the money into it. The other choice, of course, is for Government to put the money into it. Then you have to socialize society and I don't think we want that.

So you get people to put money into it on their own. And the way for them to do that, of course, is to place more money at their disposal. And the way to do that is to reduce their individual taxes in some way or another. And in order to avoid a greater deficit to do that, you have to get Government under control.

Now the President has taken that first step. He's tried to get Government under control by reducing the deficit, by holding spending down to some kind of modest proportion of GNP. That has been leaping forward greatly over the past few years.

But is there any emphasis on the next step, which is to try to get people induced or supplied with their own funds to invest in America's productive capacity?

Mr. WHITE. Yes, there is, Congressman Brown. We agree with you that that is a fundamental problem. And as I indicated before you had arrived, in my view, much of the productivity issue has to be tied back to the problem of inadequate economic growth. Economic growth has to be provided largely by the private sector. And we are in the process, in terms of the 1981 budget review, of looking not only at expenditure programs but at the receipt side in terms of what you have just spoken about, about the large proportion of income of the society that goes in to taxes, Government receipts and the tax policy to see whether or not we can't improve the investment rate, savings rate, investment rate of the private sector in order to increase economic growth.

So we are looking at those issues and I think you are right, I think your analysis is correct.

Representative BROWN. I think you are on the right track, too. I appreciate the compliment and I will return it, because I understand in your testimony you have come out for many parts of the Bentsen-Brown effort to get regulation under control and I think that's salutary. I hope we can get it moving. Love is one thing but action is something else. We need a little more than just the academic exercise of saying it's a nice bill.

Mr. Merchant's company makes a lot of heavy equipment, a lot less proportionately in the world than it used to make because it's got a lot of competition, but in this country we discourage the replacement of major pieces of equipment such as he makes by a depreciation policy that is unattractive for many industries. This is the system of historic depreciation rates. By the time companies have depreciated the price of original equipment and are ready to replace it, they suddenly discover that the equipment is now 2, 3, or 4 times more expensive than the depreciation they have accumulated. And they have paid taxes on the profits that were created by that underdepreciation and they must either go out and get new funds at very high interest rates or else take out of their profits to expand and buy a new piece of equipment made by Mr. Merchant's company.

Now how can we address that problem? Are you willing to try to see that it's addressed?

Mr. WHITE. Yes, sir, we are. As the chairman mentioned earlier, I think we need to look at that. The critical issue here, it seems to me, is what makes the difference in terms of encouraging private sector business investment. That's an array of complicated relationships which you know as well as I do.

Representative BROWN. If the chairman has addressed the depreciation point before I came, I think that it was in good hands. Let me try another point. And, that is the encouragement of increased savings. Now I had a piece of legislation which is modeled after a socialist society's approach. The French have encouraged people to invest in the Bourse, the stockmarket over there, by giving them tax credit for what they make off that investment. Mine would do something else. It would encourage them to increase their savings and give them that off of their income tax. That is, the extent to which they increase their savings beyond the normal level for their income group, I would give them tax credit to encourage that.

Do you see that as a possibility for getting people to put money in the bank, therefore encouraging the bank to have a sale on money by reducing interest rates, or put it in the stockmarket or put it in life insurance where it would be invested again? Even an increased investment in retirement accounts and pension programs would do that.

Mr. WHITE. I apologize, I can't speak to the specifics of your bill, Congressman Brown, but there is no question that the savings rate is too low. We need to get it up. The administration, as you know, the President has been concerned with that. As I mentioned in terms of increasing interest rates to attract savings, to reward people for saving and postponing consumption, we need to have more policies of that sort in order to increase the investment rate by, of course, increasing the saving rate.

Representative BROWN. If we cut their taxes to encourage savings, rather than increase the return, it seems to me we do a better job. I have made this argument in speeches—it's sort of a nasty little argument, I guess—if you go down on 14th Street and invest in some immediate pleasure, presumably you get 100 percent of your value—or what you think is 100 percent of your value—but if you do go down to 14th Street and invest in some savings institutions, which are also located there, you get taxed by inflation on money that you have left there because you earn only 6 or 7 percent interest and the inflation rate is over 12 percent. And, then you are taxed on that 6 or 7 percent earned. Now couldn't we reward savings accounts rather than alternate kinds of investment?

Mr. WHITE. I think we ought to reward savings. I think we ought to get the inflation rate down. That would reward savings probably more than anything else that we could do. Beyond that, as I say, I think the S. & L.'s and so on, we have got to work to increase those rates, pay the fair market rates.

Representative BROWN. I understand you have to leave and I don't want to hold you up, but let me give you this thought: Let's not increase what financial institutions can pay in interest.

Mr. WHITE. I understand.

Representative BROWN. But rather, reduce what the Government takes from the interest made by the individual investor.

Mr. WHITE. Let me say in that regard that in terms of fiscal years 1981-82 projections of Federal receipts, we are facing a very large proportion of people's incomes going into Federal taxes. We are looking very hard at that issue in terms of the 1981 program; that is, examining whether or not there are things that we ought to do with respect to decentralizing the tax system to improve people's incentive to save.

Representative BROWN. Just improve the individual incentive. That's all that I ask that we do. Don't try to buy us with some Federal program, but let us figure out to spend our own money and I think you will find that the residual Yankee ingenuity and thrift and so forth that we used to think was indigenous to this country, but has somehow now disappeared, will suddenly return. It's still there, it just has not fallen on very fertile ground thanks to our tax policy and some other things the Federal Government has done to us.

Senator BENTSEN. Mr. White, in closing let me ask one more question of you. You were talking about many agencies involved in the problems of productivity, but the President said the Productivity

Council will be the focal point within the executive branch on national productivity. How many employees do you have in the Productivity Council?

Mr. WHITE. We use staff from various agencies.

Senator BENTSEN. No; how many employees do you have specifically?

Mr. WHITE. Specifically dedicated to that effort? We have two.

Senator BENTSEN. Thank you very much.

Thank you, Mr. Chairman.

Senator BENTSEN. Mr. Merchant and Mr. Arai, reading and listening to your testimony, about computers handling production lines, robots handling jobs and increasing productivity—about a factory without any employees—I wonder what impact that has on unemployment. What is your rate of unemployment in Japan?

Mr. ARAI. Currently it stands at around 2 percent, sir.

Senator BENTSEN. You said, "There is not an adversary relationship in Japan between management and labor." Well, we have an adversary relationship here and we also have one between business and government. How do you get Japanese workers to accept the fact that you are going to put in a robot that can take their job away from them? How do you make that transition while keeping only 2 percent unemployment? How do you cushion structural shifts in Japan?

Mr. ARAI. In my testimony I indicated that we have what we call the lifetime employment system.

Senator BENTSEN. But you are working away from that some now, aren't you?

Mr. ARAI. Yes, we are. But the lifetime employment system is still quite prevalent in many of the Japanese corporations. It is not possible for a manager to release employees just because the economy is down and their sales are down. Until they are pushed to the verge of bankruptcy, they will retain the excessive labor force on their payroll.

In order to cope with such a situation, the best solution is to increase productivity and, therefore, the Japanese are heavily concentrating their effort on increasing productivity. For instance, if you want to introduce new technology into your production system in Japan, you have to take up that matter with labor unions and other workers.

I spoke about the labor/management council. There, such issues, which are usually considered here to be the prerogative of management, would be fully discussed between management and labor until such time as labor is convinced that the introduction of such technology benefits them; that is, the company will not unilaterally initiate the action to install new systems or introduce new technology.

Normally what happens is that if certain new systems or new technology replaces a certain percentage of the work force in the company, they try to retrain the replaced employees and send them to other operational departments, so as to take care of them.

Senator BENTSEN. The company itself?

Mr. ARAI. Yes, the company itself, normally.

Senator BENTSEN. It accepts that obligation.

Mr. ARAI. Yes, sir, because the fact that you introduce high technology or sophisticated systems means that your production goes up for less cost and you have more profits to go into other lines of production, which enables you to employ those who are replaced.

Senator BENTSEN. Mr. Merchant, you talked about two-thirds of the wealth of our Nation coming from manufacturing, and that we couldn't generate wealth out of services. I can think of exceptions to that, but in general I really believe that you can't build the wealth of a nation by taking in other people's washing. You have to have something that's generated.

You hit very hard on the role of research and the tripartite approach that we should have between the universities, government, and business. If business really is backing away from basic long-term research that takes 10 or 15 years to pay off, backing away because managers want to see profits go up during their tenure to get their bonuses, then, obviously, we are going to have to concentrate more on the government side.

But I was looking at some figures here on what has happened to nondefense research in our country. In 1967, 1.85 percent of our GNP was devoted to such R. & D. That's nondefense. And that was the highest percentage of all of our trading partners. Yet from 1970 on, we fell behind both Japan and Germany and both the United Kingdom and France will shortly surpass us as well.

Now we can measure, we can quantify, the results of that trend because the number of patents being awarded to U.S. citizens has fallen steadily since 1971 and reached the lowest level in 11 years in 1976. So I totally agree with you in trying to see that we find ways to increase R. & D.

Now, a lot of these innovative things seem to come out of some of the smaller firms, smaller companies.

What do you think of the idea of giving an extra tax benefit for research and development, with some limitation on it, to try and encourage R. & D. work by smaller firms?

Mr. MERCHANT. You are speaking of doing that particularly for smaller firms?

Senator BENTSEN. That's right.

Mr. MERCHANT. Yes, certainly. That has real merit, there's no question about it, because it's very, very difficult for small firms to carry on research and development or even implement the results of research and development done elsewhere. If they can have tax benefits related to research, development, and implementation, this is very important.

Of course, I would go on to say that many firms are too small even to do any significant research and development and, therefore, that again is a point very much in favor of this cooperative technology program of the Department of Commerce to which I have referred. That would particularly benefit small firms who aren't in a position to do much research and development themselves. And through that planned activity in these cooperative technology centers, generic research and development could be done of great benefit to small firms.

Senator BENTSEN. Let me hear from both of you on this: We hear a lot of people say we are selling our technology. We are doing hard, basic, long-term research in this country, but it is taken abroad. Our competitors take it, perhaps improve on it, and then come back to us with very competitive products.

How much of the R. & D. work abroad is basic? How much of it is long-term research? Can you give me some feel on that, Mr. Arai?

Mr. ARAI. I'm sorry, sir, I don't have the figures.

Senator BENTSEN. Do you give any tax benefits for R. & D. on basic research?

Mr. ARAI. Well, that depends upon who invests in research and development programs. If it's a profitmaking corporation, they usually do not receive any tax benefit. However, if the money is to be spent by a targeted growth industry, so classified under the tax law, they obtain government approval and get a tax benefit on the investments in research.

Senator BENTSEN. I have so many other questions but my colleagues too have questions.

Senator PROXMIRE.

Senator PROXMIRE. These have been very, very frank and helpful statements. I do have a lot of questions I would like to ask. Let me start with Mr. Arai.

I notice that you have as one of your major policies, enforcement of antimonopoly laws. And then you say in the course of your presentation that sometimes the Japanese Government encourages mergers and encourages combinations in order to strengthen the economic unit. How do you reconcile those two things? I just had the impression that other countries were not as aggressive in antitrust as we were. Am I wrong?

Mr. ARAI. You are not wrong, sir, not in your understanding. But I did indicate in my presentation that lax enforcement of antimonopoly laws—

Senator PROXMIRE. The policy is lax enforcement?

Mr. ARAI. Lax.

Senator PROXMIRE. OK.

Mr. ARAI. We have strict antimonopoly regulations on the books in Japan. When it comes to enforcement, I think the interpretation of the particular provision differs depending upon the agencies which enforce such regulations.

Senator PROXMIRE. Then you say in your statement: "As the industries matured, protective tariffs and special tax measures were gradually decreased, and many were removed by the 1970's." Did you actually eliminate tax measures which encouraged investment, for example, in the 1970's?

Mr. ARAI. No, sir, many are removed because of the outcry from abroad on the Japanese protective policy. However, there are still some tax privileges being afforded to certain business sectors.

Senator PROXMIRE. Then you had another interesting fact that I have never heard before. You said that United States and European countries, government employees represent over 20 percent of the current labor force. In Japan, less than 10 percent work for the Government. In view of the fact that most of those employees are State and local—our Federal employees, as Mr. White indicated, have been fairly stable for a number of years at about 2 million, not counting our Army, Navy, and Air Force. And many of those local employees are teachers. And, you stress education in Japan. Do you have a pupil-teacher ratio that's higher than ours? Is that one of the reasons you have fewer teachers in relationship to your pupils?

Mr. ARAI. That is true. We have fewer teachers per number of students in Japan. I do not have data as to what percentage of total government workers is represented by teachers, but I assume that in view of the small amount we invest on government functions and in view of the large number of students who have to be accommodated with a small number of teachers, that the ratio of our investment in education is smaller.

Senator PROXMIRE. Maybe sometime I could get a breakdown. I would like to see a breakdown because it would be interesting to see why Japanese Government employees are so much less than ours. It's only half overall, but it might be very instructive information for us and very helpful.

Then you say that remarkable statistics on savings, that 20 percent of workers' income is deposited in financial institutions, and that isn't by coercion. That's by simple volunteer savings.

Mr. ARAI. That is correct, sir.

Senator PROXMIRE. What we do, of course, is to make it a crime for a bank to pay interest to somebody who has money in a checking account. It's against the law. And we limit the amount that can be paid to passbook savings to a pitiful 5¼ percent at a time when interest rates are around 10 percent. The alibi for that is most revealing because the argument is that we have to hold down the interest rate because otherwise interest rates on housing and automobiles and so forth would go higher. They should be higher if you want to cope with inflation.

What do you do? You encourage saving and you discourage expenditures. We're doing exactly the opposite. We have a law that says it's illegal to pay a market rate of interest on savings. And we justify it on the grounds that we want more demand for houses and more automobiles and, of course, that's exactly what you don't need in an inflated economy.

Do you have any limitation on the interest rates paid to savers in Japan?

Mr. ARAI. I do not know whether or not the Government has any regulation with respect to maximum ceiling on interest rates. However, I do know that the interests paid by banks and savings institutions are extremely low at this time. I believe they only get up to 5 percent or so. The inflation rate in Japan stands at around 5 percent now.

Senator PROXMIRE. Is that less than the market rate of interest paid generally?

Mr. ARAI. If you are talking about the discount rate, it is about 3.5 percent at this time.

Senator PROXMIRE. How can you then get that remarkable savings performance?

Mr. ARAI. Well, there is a traditional reason which is that the Japanese consider thriftiness a virtue. That's one of the reasons. But the second reason, and a more important economic reason, is that we have a very inadequate social security system. I believe the per capita social security expenditure in Japan currently amounts to only about one-third of what the U.S. citizen receives.

In addition to that, we have very inadequate pension systems for corporate employees. The compulsory retirement age for most of the Japanese corporate workers is between 55 and 60.

The fact that the Japanese is expected to live until the age of 72 or so, and that he will clearly receive a small percentage of the social security received by his American counterpart, and that they only receive a small percentage of the pension available to American employees, prompts Japanese workers to save substantial sums of their disposable income in the form of deposits. And that in turn usually is plowed back by industrial companies for further investment in plant and equipment.

It is a necessity on the part of the Japanese to save for their old age. It is a sign of the inadequacy of our system at this time.

Senator PROXMIRE. Well, you see, one of the reasons given, whether it is a justification or not is something else, for American workers not being able to do that is because the argument is they may be laid off and then they, therefore, have to use up their savings. And then they retire at 65 and they have very little then set aside.

So the Social Security System under those circumstances is more necessary. You say you still have largely a guaranteed employment, not as universal as it used to be but it is still general.

Mr. ARAI. Yes.

Senator PROXMIRE. One of the reasons why I presume people would save is the assurance that they wouldn't have to use up that savings because they were laid off.

Mr. ARAI. That is part of the reason, too.

Senator PROXMIRE. Then you make a very interesting statement, you say: "There are literally tens of thousands of cases reported in which the worker's voluntary programs resulted in a drastic increase in productivity and a decrease in the production of defective parts and products." Is that voluntary initiative on the part of the workers, on the part of management, or on the part of both?

Mr. ARAI. The QC circle program is a voluntary program initiated by both workers and management. Management usually stay away from the active program on the shop floor because they want to avoid the program being labeled as a management con game, and two, they believe that brainstorming and voluntary discussion and participation in the program by the blue collar workers actually produces better results.

As a matter of fact, there are several cases in which the problems that the industrial engineer could not solve were solved by the workers as the result of the discussions among themselves.

Senator PROXMIRE. That's very, very interesting.

One other question that particularly intrigues me. The chairman pursued this, and I would like to pursue it a little further. You indicated that when sales are down instead of letting people off, that you intensify your technological efforts and you increase production. Now when you consider the fact that you have a savings rate of 20 percent and you say you increase production, that wouldn't work, would it, in a completely contained economy where you didn't have an export market? It would seem to me that what you really do is concentrate very heavily on getting technology and innovation in the economy into your export industries and are able, therefore, to sell on a world market at a lower price and in effect export your surplus; and in

a sense—maybe it is not fair—but I might say you export your unemployment. You don't have unemployment because you so intensely work at holding down that price and that's one of the reasons why we are having difficulty in working with the Japanese. How do you answer that?

Mr. ARAI. That could be the reason why you have the current situation at hand. However, on the other hand, I'd like to point out that the impact of Japanese corporate policy is minimal.

Japan, contrary to any popular perception, only exports 12 percent of its gross national product abroad—

Senator PROXMIRE. We export about 7 percent.

Mr. ARAI [continuing]. And of that 12 percent, only one-fifth comes to the United States.

Now, whether you are talking about a very small percentage as compared to your gross national product and your production capability, I must say that Japan's policy with respect to export has minimal impact on the current \$2 trillion economy of this country. Certainly, the fact that we only export 12 percent of our gross national product means that 88 percent of the gross national product is consumed in the domestic market.

Senator PROXMIRE. My time is up. Unfortunately.

Senator BENTSEN. Congressman Brown.

Representative BROWN. Mr. Chairman, thank you very much.

Mr. Merchant, I want to lead on one point, which was just being discussed by Senator Proxmire, and that is: In your testimony, you suggested that most European nations are concentrating heavily on programs for research development and advanced manufacturing technology; and that they do this through cooperation between government, universities, industry, technical societies, and trade associations. What about the role of labor? Mr. Arai has given us an outline of the QC—quality circle—used in Japan. Do you see an opportunity for that in this country as well as the European countries—those who have more sophisticated—or perhaps they are less sophisticated; I am not sure—labor organizations?

Mr. MERCHANT. Yes, Congressman Brown, As far as the quality control circles question, very definitely. Taking a lesson from Japan, American industry has become quite interested in quality control circles and is beginning to implement that kind of program in America.

Representative BROWN. Are you getting support from the labor organizations—that is, the unions—or opposition? What kind of a reaction are you getting?

Mr. MERCHANT. I haven't had any first-hand experience with this, so I can't give you any definitive answer except to say that what I have heard indirectly is that they are working quite well. They are being accepted quite well in most companies which have moved in this direction—American companies. I am not sure about the European scene. I would suspect you, Mr. Arai, probably know more about implementation of that in Europe than I do. I suspect they are also following your example. You might want to comment.

Mr. ARAI. My knowledge of the European experience is rather limited, but I do understand that in some countries they have what they call "small group participation teams," which are quite similar to Japan's quality control circle program.

To what extent they have been effective in increasing productivity, and decreasing the production of defective parts, I am not clear.

Representative BROWN. Mr. Arai, you discussed the retirement programs that exist, or don't exist, in Japan. Of course, there is an interesting distinction that I think the record ought to show. And that is that the money put into banks by the Japanese citizen for his own future retirement is money invested, in effect, in the development of Japanese industry. That is, it is available for borrowing, and apparently at low interest rates, as opposed to the social security system, which is a pay-in-payout system where the money is never on loan to industry for the development of productivity in the United States.

Do you see that as a distinction of significance?

Mr. ARAI. Well, that is certainly one of the factors that drives the Japanese to work hard and save a lot.

Representative BROWN. And the money is available.

Mr. ARAI. Oh, yes, the money is certainly available for corporations which want to make an investment in plant and equipment. Particularly in view of the fact that the average net worth of Japanese corporations only amounts to about 20 percent, they have to rely on outside sources for 80 percent.

Representative BROWN. In other words, they're highly leveraged. It's done to a very high degree by bank financing.

Mr. ARAI. That is correct.

Representative BROWN. By loans?

Mr. ARAI. Yes, sir.

Representative BROWN. So if they don't return a percentage of profit that covers that bank loan, they don't get the next bank loan.

Mr. ARAI. That is correct, sir.

Representative BROWN. So there is a very high requirement for efficient operation.

Mr. ARAI. Yes; it is absolutely necessary. Otherwise, they would be able to cover the costs of funds.

Representative BROWN. And the preferential loan system, how does that work? You mentioned preferential bank loans.

Mr. ARAI. Well, it is not done so frequently, currently. However, in the past, it is known that since the Government controlled the Bank of Japan, and the Bank of Japan in turn, controlled the commercial banks, that some of the high-growth, high-productivity industries received preferential loans over the low-productivity, low-growth industries.

Representative BROWN. Now, to what extent was the loan preferential?

Mr. ARAI. Well, it is up to the individual banks, and it depends upon the individual company involved. There is no standard format for that.

Representative BROWN. But to some extent it applies to national policy, does it not?

Mr. ARAI. It is my understanding that, even though it is not so stated, the Japanese Government certainly lets the bankers know that they want certain industrial corporations to survive.

Representative BROWN. That becomes a national marketing policy, doesn't it? In other words, the National Government, to some extent,

makes a determination that there is a market out there in the world for this kind of product, that there is an opportunity to produce that product more efficiently than the other suppliers in the world are supplying it, and therefore the Japanese industry that has developed the technology to be more efficient in this area gets a preferential bank loan, and therefore can begin to undersell its competitors with a superior product. Is that about the way it works?

Mr. ARAI. I don't believe that is exactly the way it happens, sir. As I indicated in the beginning of my testimony, Japan has to rely upon limited supply of natural resources. We don't have any natural resources to speak of. Therefore, it is essential for us that the proper allocation of the supply of natural resources be made. Otherwise, the precious natural resources, which we have to import for higher prices, would be used by the companies with low productivity and low potential growth.

Therefore, it is certainly the policy of Japan, I am sure, to foster the industry which has high-growth potential. And companies with futuristic features will be encouraged to receive such loans, not on the grounds that those industries may contribute toward expanding Japan's export market, but rather that Japan as an industrial society may survive.

Representative BROWN. But it is profit-driven, is it not? What I am saying is that the inefficient operation suddenly finds that it is a little more difficult to get a bank loan, or that the interest rate may be a little higher than would be the case for a newly developing, efficient operation that had a world market or Japanese market. Is that correct?

Mr. ARAI. That could be the situation, yes. And you are right; but not necessarily because the policymaker has the specific intention of having the company produce export oriented products.

Representative BROWN. So the point of this is that, in effect, the free enterprise decision is influenced by a national policy that makes life more difficult for an inefficient operation.

Now, in our country our political policy has tended to subsidize inefficient businesses, so that our workers don't suddenly find themselves out of jobs. In a more compact society, I assume that those workers are more mobile, and can shift from an inefficient to an efficient industry with some ease. Is that correct?

Mr. ARAI. I believe, Congressman Brown, that you pointed out the reason why your productivity is low. You subsidize low-productivity industry, while you do not subsidize high-productivity industry.

Representative BROWN. And just one final point. My time is up, but I want to address one that is apparently going to become an issue in the U.S. Senate, and that is the question of antitrust enforcement.

You are suggesting that one of the reasons for Japanese success is that you allow, I think you called it, the "economy of scale" for the aggregation of productive resources and facilities by some industries, so that they can be more competitive in world markets. This contrasts with the American pattern of keeping industries separate, not allowing them to aggregate or monopolize, or become trusts, so that they can compete among themselves. We have thought of them as serving just a U.S. market, whereas the Japanese think of them as serving a world market. Is that a fair comment?

Mr. ARAI. No, sir, I don't believe so.

Representative BROWN. If not a world market, at least a regional one.

Mr. ARAI. Heavy emphasis is obviously placed on Japan's export effort. However, as I indicated, Japan is the second largest market in the whole world; and 88 percent—close to 88 percent of our gross national product is consumed in our own country. True, the Japanese have certain systems and certain methods of enforcing regulations; but such a situation, or such a policy, should not be interpreted as an attempt to exploit the export industry.

Representative BROWN. Then it also benefits the consumers through the efficiency of production and the resulting lower domestic prices for Japanese consumers. Is that what you are telling us?

Mr. ARAI. Certainly, sir.

Representative BROWN. Thank you, Mr. Chairman.

Senator BENTSEN. Thank you very much. I think it has been a very productive hearing and we are very appreciative.

[Whereupon, at 12:15 p.m., the committee recessed, to reconvene at 9:30 a.m., Wednesday, June 6, 1979.]

Representative H. ... a world market, at least a regional
 effort. However, as I indicated, Japan is the second largest market in
 the world with 88 million people. It is one of the great na-
 tional markets in terms of its own country. The Japanese
 have certain systems and certain methods of economy regulation
 and such a situation, in fact, it is, should not be interpreted
 as an attempt to exploit the world market.

Representative H. ... the difficulty of production and the resulting lower consumption
 for Japanese consumers. It is what you are talking

Mr. ...
 Representative H. ... I think it has been a very
 productive hearing and we are very appreciative.
 Wednesday, June 1, 1964

PRODUCTIVITY

WEDNESDAY, JUNE 6, 1979

PRODUCTIVITY, CORRUPTION, AND WASTE IN THE FEDERAL GOVERNMENT

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met, pursuant to recess, at 9:30 a.m., in room 457, Russell Senate Office Building, Hon. Lloyd Bentsen (chairman of the committee) presiding.

Present: Senators Bentsen and Proxmire; and Representative Heckler.

Also present: John M. Albertine, executive director; Paul B. Manchester and George R. Tyler, professional staff members; Charles H. Bradford, minority counsel; and Carol A. Corcoran and Mark R. Policinski, minority professional staff members.

OPENING STATEMENT OF SENATOR BENTSEN, CHAIRMAN

Senator BENTSEN. This hearing will come to order.

We're pleased to have with us this morning three leading Government officials who share my deep concern, and I know Senator Proxmire's deep concern, about the level of productivity and the quality of management in the Federal Government.

Mr. Alan Campbell is Director of the Office of Personnel Management, Mr. Benjamin Civiletti is Deputy Attorney General, and Mr. Elmer Staats is Comptroller General.

The great majority of Federal workers are hard-working, dedicated public servants who put in a full week's work, more than a week's work in many instances, without any overtime pay. One indicator of this quality is the high average level of educational attainment among Federal workers. At the top some of the best work in the country is carried out by Government employees. An example is the award of the Nobel Prize in medicine to two Veterans' Administration researchers last year. Workers themselves are concerned—the constitution of the largest Federal employees union stresses their commitment to efficiency and plans for improvement.

But there is a problem of mismanagement, inadequate productivity, and fraud and waste in some areas of the Federal Government.

In recent congressional testimony, Mr. Civiletti estimated that 1 to 10 percent of Federal expenditures were due to fraud and abuse. These problems appear to arise from several factors:

(1) Use of inefficient methods. For example, in a recent study of debt collection, the General Accounting Office found that while some private firms find it cost-effective to pursue debts as small as \$25, the Federal Government does not seek judgments on debts of less than \$600.

(2) Employee concern about the quality of supervision. In one survey, 55 percent of public sector employees felt that their immediate supervisor was doing a good job; in the private sector, the corresponding figure was 67 percent.

(3) Difficulties of dealing with the small minority of nonproductive employees. In perhaps the most bizarre case, GAO reported that an agency fired an employee for beating his supervisor with a baseball bat. The Federal Employees Appeals Authority overturned the removal, contending the agency had not given the employee adequate notice of the firing. The agency had to reinstate the employee in the same position, under the same supervisor, and reimburse the employee 8 months' back pay.

(4) The budget process. Some observers have suggested that it is difficult to achieve reductions in waste and improvements in productivity in the Federal Government because such gains may lead to reductions in an agency's budget.

However, in my view there are at least three grounds for optimism that in the future we can do more to bring out the best efforts of Federal workers:

First, the program conducted by the Bureau of Labor Statistics for measuring productivity in the Federal Government. This was initiated in response to a 1970 request from Senator Proxmire, who was then chairman of the Joint Economic Committee. Currently this covers 64 percent of Federal employees; with additional funding, coverage could be extended to an additional 600,000 employees, to 85 percent of the total.

Second, the Civil Service Reform Act of 1978.

Third, the President's new Executive Group to Combat Fraud and Waste in Government, chaired by Mr. Civiletti, and the Presidential Management Improvement Council, cochaired by Mr. Campbell and Mr. McIntyre of OMB.

We welcome your testimony on these issues.

Mr. Campbell, I understand you have to return to the White House, so we'll start with you. We will go through all the statements, and then direct our questions first to you.

STATEMENT OF HON. ALAN K. CAMPBELL, DIRECTOR, OFFICE OF PERSONNEL MANAGEMENT

Mr. CAMPBELL. Thank you very much. I appreciate this opportunity, Mr. Chairman, Senator Proxmire, to appear before this committee to discuss the Management Improvement Council and productivity in the Federal Government.

In the chairman's letter to me he asked that I address four questions. I will cover all of these but one, since that one related directly to Mr. Civiletti, and I suppose that he will deal with it.

Let me begin by discussing the President's Management Improvement Council and indicate how this Council will complement initiatives now underway as part of civil service reform implementation. I will

then describe systematic obstacles to productivity improvement in the Federal Government, and will suggest directions that seem to us to offer promise. I will conclude with a brief description of what the Office of Personnel Management is doing to evaluate the reform initiatives, and mention some key training activities being undertaken to reduce mismanagement, waste, and fraud.

The new President's Management Improvement Council, which as the chairman said is cochaired by Jim McIntyre and me, will support efforts to improve management practices and program performance throughout the Federal Government. The Council's tasks include identifying generic management problems and constraints in the Federal sector, providing advice and recommending solutions to agencies on critical management issues, undertaking specific management improvement projects in concert with Federal agencies, and supporting the development of management systems and techniques to improve the effectiveness and efficiency in Federal programs.

The Council will be made up of representatives from Federal agencies, State and local governments, business and industry, and academic and other institutions. It will work closely with the Comptroller General, agency inspectors general, and senior officials, and will draw on the combined experience of public and private sector people.

The Council will have a small staff available to work with agencies on specific management improvement projects. The lead role in any project, however, will be taken by the agency concerned. We expect that participating agencies will form task forces for this purpose. They will always include Office of Management and Budget and Office of Personnel Management representatives whose presence, we believe, will assure that the full institutional support of both of these agencies is brought to bear on project activities.

I want to emphasize that the Council will be as much concerned with exploiting opportunities as with solving problems. It will therefore seek to identify the best managerial practices throughout the Federal Government in order to build upon these and disseminate them widely. In this vein the Council will assume a preventive posture with respect to problems of fraud and waste in government. It will concentrate on developing methods to anticipate and prevent, rather than simply react to such problems. I think the productivity implications of this approach are obvious. We are now developing, with the help of the Departments and agencies, a list of chosen topics with the Council covering areas of possible management improvement.

The Council is certain to include among its efforts management issues in specific agencies, and is also likely to address issues that cut across agency lines.

Recent efforts to improve the Federal Government's handling of cash management, as well as the work with private industry advisers on a designing merit pay, are an example of previous efforts which suggest the kinds of issues the Council may address.

Council activities will complement those of the National Productivity Council, which involve all three levels of government, as well as the private sector.

More fundamentally, the new Council initially will further the productivity improvement components of civil service reform which are now being implemented.

The Senior Executive Service—for which only 19 of the eligible Federal executives have declined to enroll; that is, 19 out of approximately 4,000 that have indicated their preference—provides new authorities and responsibilities and greater accountability with the potential of increased rewards. This Service thus ranks the individual instead of the job.

As a consequence, executive mobility is encouraged. At the same time, executives will be rated not simply on their individual performance, but on that of the organizations for which they are responsible.

These structural changes are mirrored in the new merit pay system which applies to middle levels of government. Traditional pay increases, which have been virtually automatically applied, are being replaced by performance-based increases. Moreover, additional care is going into the development of managers and especially the selection of new managers. The latter will serve a probationary period to demonstrate their managerial, as well as technical competence.

Finally, the decentralization of personnel functions through civil service restructuring will lead to more responsive and more productive support systems.

As significant as the above efforts are, I do not mean to suggest that bringing about increased Federal productivity will be easy. On the contrary, a host of systemic obstacles must be confronted.

To begin, there are problems of perception. For many employees, productivity is synonymous with speed-up, downgradings and reductions-in-force. This is a "we-they" view in which productivity is supposed to be a concern of management only, not the whole organization. This view must be overcome by involving employees in our efforts to improve productivity.

Apart from problems of perception certain basic measurement and administrative problems stand in the way of greater productivity, and we turn to those briefly.

Measuring the productivity of any organization, public or private, is complicated by changes in both inputs and outputs. On the input side, comparisons between time periods are often confounded by the introduction of new technology. On the output side, similar difficulties may arise from changes in the nature of organizational programming. The difficulties stem not only from changes over time, but also from the complexity of inputs and outputs. One hopeful response to this problem is the attempt to measure and control total factor productivity, which is concerned with how well an organization transforms multiple inputs; human, technological, material and financial, into desired outputs.

There is also a problem in the relationship between efficiency and effectiveness. Efficiency is output per staff-hour. What it does not capture is the value of this output; that is, how far it contributes to program objectives and their eventual effectiveness. Productivity improvement must take into account both of these. Put another way, it is concerned both with "doing things right" and with "doing the right things."

Effectiveness is problematic in its measurement in the public sector, since there is no market mechanism at work to determine it, as there

is in the private sector. Because effectiveness is so important, however, we are devoting considerable efforts to finding ways of measuring it. Effectiveness measures are especially critical for those governmental units whose functions are not workload-driven, but rather are oriented toward research, development, and evaluation.

All organizations produce both intermediate and final outputs. Intermediate outputs are those consumed within an organization. Final outputs are products or services used outside the organization. In determining an organization's productivity, intermediate outputs should be attributed to final outputs in order to derive aggregate measures. But often this is hard to do in service organizations because it is difficult to isolate the contributions of these intermediate outputs.

The personnel function is a case in point. It represents administrative support which, though measurable, is difficult to allocate among final outputs. Since most government organizations are service-based, the intermediate/final output problem is pervasive.

A common thread running through all our efforts to improve measurement is the need to develop data useful to the operating manager. In this regard, we are carrying out a promising experiment in several agencies to measure various aspects of the personnel function. This is part of a larger attempt to measure common administrative services in organizations throughout the Federal Government.

Turning now to some administrative problems in relation to productivity, the Federal sector is managed by career civil servants and by shorter tenure political appointees. These groups typically have different backgrounds and perspectives, and very often, different objectives. Clearly, productivity improvement requires the active collaboration of both groups. Accordingly, every effort will be made to involve career and noncareer managers jointly in issues which transcend their differences.

Another area of concern is budget policies. All of us are familiar with the charge that the current budget system produces productivity disincentives. Thus, it is argued that agencies which achieve their objectives at less cost than budgeted may find their future budgets correspondingly reduced. On the other hand, increasing budgets bring greater status to an agency than cost reductions.

I believe the Senior Executive Service will at least address this problem in part, to the extent that executives' compensation will not be based on the number of employees managed, or other similar, partial measures. Rather, compensation and rank will depend on overall performance. Parallel initiatives will also be explored. These include the idea of providing more resources to those supervisors whose units have been most cost effective in the past.

I would add that the budgeting problem is far less tractable than many seem to believe. If we knew with confidence which Government agencies were efficient and effective, and which were not, comparisons would be easier to make, and budget disincentives and inequities could more readily be corrected.

Unfortunately, we do not have this knowledge; consequently, budgeting decisions tend to be made with respect to particular situations. As our understanding of productivity improvement and measurement

grows, more generally based budgeting decisions should become possible. At that point, incorporating productivity considerations in budget decisions will be more feasible than it is today.

At the heart of the civil service reform is the statutory requirement to decentralize personnel decisions to the departments and agencies. First, personnel decisions must be delegated from the central Federal agency to the various departments.

Second, we are encouraging organizations to move these decisions out of the exclusive ground of the staff specialists and into that of the line manager. In other words, we are trying to place personnel functions where the action is.

I've covered a lot of ground, Mr. Chairman, in these areas, and some of it not very completely, but they are all interrelated, so much so, perhaps, as are productivity and management. We will need much cooperation from all of the branches of Government. It is likely that our success in improving Federal performance depends more on the interaction of our various initiatives—the President's Management Improvement Council, the implementation of civil service reform, the National Productivity Council, and other efforts—than on the effectiveness of any one of them separately. We welcome the interest of this committee in these efforts to improve management and productivity, and I look forward to the opportunity of working with you in these areas.

Thank you very much.

Senator BENTSEN. Thank you, Mr. Campbell.

[The prepared statement of Mr. Campbell follows:]

PREPARED STATEMENT OF HON. ALAN K. CAMPBELL

Senator Bentsen and members of the committee, I appreciate the opportunity to appear before the Committee to discuss the Management Improvement Council and productivity in the Federal government.

INTRODUCTION

In his May 18, 1979 letter, Senator Bentsen asked me to address four questions. My remarks will cover all but one of these. The question that I will not address concerns Mr. Civiletti's comment (during his March 15th testimony) because I think it more appropriate that he do that.

I would like to begin by discussing the President's Management Improvement Council, and indicate how this Council will complement initiatives now underway as part of Civil Service Reform. I then will describe systemic obstacles to productivity improvement in the Federal government and will suggest directions that seem to offer promise. I will conclude with a brief description of what the Office of Personnel Management is doing to evaluate the Reform initiatives, and mention some key training activities being undertaken to reduce mismanagement, waste, and fraud.

PRESIDENT'S MANAGEMENT IMPROVEMENT COUNCIL

The new President's Management Improvement Council—which James McIntyre and I are co-chairing—will support efforts to improve management practices and program performance throughout the Federal government. The Council's tasks include:

- (1) Identifying generic management problems and constraints in the Federal sector;
- (2) Providing advice and recommending solutions to agencies on critical management issues;
- (3) Undertaking specific management improvement projects in concert with Federal agencies; and
- (4) Supporting the development of management systems and techniques to improve the effectiveness and efficiency of Federal programs.

The Council will be made up of representatives from Federal agencies, state and local government, business and industry, and academic and other institutions. It will work closely with the Comptroller General, agency Inspectors General, and senior officials; and will draw on the combined experience of public and private sectors.

The Council will have a small staff available to work with agencies on specific management improvement projects. The lead role in any project, however, will be taken by the agency concerned. We expect that participating agencies will form task forces for this purpose. These will include Office of Management and Budget, and Office of Personnel Management representatives, whose presence will assure that the full institutional support of both offices is brought to bear on project activities.

I want to emphasize that the Council will be as much concerned with exploiting opportunities as with solving problems. It will therefore seek to identify best managerial practices throughout the Federal government in order to build upon these and disseminate them widely. In this vein, the Council will assume a preventive posture with respect to problems of fraud and waste in government. It will concentrate on developing methods to anticipate and prevent, rather than simply react to, such problems. The productivity implications of this approach are obvious.

We are now developing with the help of departments and agencies a list of issues and topics for the Council covering areas of possible management improvement. The Council is certain to include among its efforts management issues in specific agencies. The Council is also likely to address issues that cut across agency lines. Recent efforts to improve the Federal government's handling of cash management, as well as the work with private industry advisors on designing merit pay, are examples of previous efforts which suggest some of the kinds of issues the Council may address. A project which we will suggest to the Council as high priority will be an effort to improve Government debt collection practices and performance.

CIVIL SERVICE REFORM

Council activities will complement those of the National Productivity Council—which involve all levels of government as well as the private sector. More fundamentally, the new Council's initiatives will further the productivity improvement components of Civil Service Reform which are now being implemented.

The Senior Executive Service—for which only 19 of the eligible Federal executives have declined to enroll as of May 25, 1979—provides new authorities and responsibilities, and greater accountability with the potential of increased rewards. This Service vests rank in the individual, instead of the job. As a consequence, executive mobility is increased. At the same time, executives will be rated not simply on their individual performance, but on that of the organizations for which they are responsible.

These structural changes are mirrored in the new merit pay system which applies to middle levels of management. Traditional increases—which have been virtually automatically applied—are being replaced by performance-based bonuses. Moreover, additional care is going into the development of managers and especially, the selection of new managers. The latter will serve a probationary period in order to demonstrate their managerial, as well as technical, competence.

Finally, the decentralization of personnel functions through Civil Service restructuring will lead to more responsive and more productive support systems. This is especially the case with examining and employee performance appraisal, which should henceforth more accurately match agency realities.

OBSTACLES TO INCREASED FEDERAL PRODUCTIVITY

As significant as the above efforts are, I do not mean to suggest that bringing about increased Federal productivity will be easy. On the contrary, a host of systemic obstacles must be confronted. To begin with, there are problems of perception. For many employees, "productivity" is synonymous with speed-up, downgradings, and reductions-in-force. This is a "we-they" view in which productivity is a concern of management only, not the whole organization. Overcoming it depends on employees seeing their own stake in a productive organization. It also depends on their having opportunities to take part in programs to make the organization more productive. We will encourage such participation.

Apart from problems of perception—or accurate perception of an unhealthy organizational climate—there are certain basic measurement and administrative problems which stand in the way of greater productivity. Let me address these now.

MEASUREMENT PROBLEMS

1. *Input/output mix.*—Measuring the productivity of any organization—public or private—is complicated by changes in either inputs or outputs. On the input side, comparisons between time periods are often confounded by the introduction of new technology. On the output side, similar difficulties may arise from changes in the nature of organizational programs. But difficulties stem not only from changes over time, but also from the complexity of inputs and outputs. One hopeful response to this problem is the attempt to measure—and control—“total factor” productivity—which is concerned with how well an organization transforms multiple inputs (human, technological, material, and financial) into desired outputs.

2. *Efficiency versus effectiveness.*—Efficiency is output per staff-hour. What it does not capture is the value of this output, i.e., how far it contributes to program objectives, or its effectiveness. Productivity improvement must take into account both of these. Put another way, it is concerned with “doing things right” and with “doing the right things.”

Effectiveness is problematic in the public sector since there is no product/market mechanism at work to determine it (unlike that in the private sector). Because effectiveness is so important, however, we are devoting considerable effort to measuring it. Effectiveness measures are especially critical for those governmental units whose functions are not workload-driven but rather, are oriented towards research, development, and evaluation.

3. *Intermediate and final outputs.*—All organizations produce both intermediate and final outputs. Intermediate outputs are those consumed within an organization; final outputs are products or services used outside the organization. In determining an organization's productivity, intermediate outputs should be attributed to final outputs in order to derive aggregate measures. But often this is hard to do in service organizations because it is difficult to isolate the contributions of these intermediate outputs. The personnel function is a case in point. It represents administrative support which, though measurable, is difficult to allocate among final outputs. Since most government organizations are service-based, the intermediate/final problem is pervasive.

A common thread running through all our efforts to improve measurement is the need to develop data which are useful to the operating manager. In this regard, we are carrying out a promising experiment in several different agencies to measure various aspects of the personnel function. This is part of a larger attempt to measure common administrative services in organizations throughout the Federal government.

ADMINISTRATIVE PROBLEMS

1. *Dual cultures.*—The Federal sector is managed by career civil servants and by shorter-tenure political appointees. These groups typically have different backgrounds and perspectives, and very often, different objectives. Clearly, productivity improvement requires the active collaboration of both groups. Accordingly, every effort will be made to involve career and non-career managers jointly in issues which transcend their differences.

2. *Budgeting policies.*—All of us are familiar with the charge that the current budget system produces productivity disincentives. Thus, it is argued that agencies which achieve their objectives at less cost than budgeted may find their future budgets correspondingly reduced. On the other hand, increasing budgets bring greater status to an agency than cost reductions.

The Senior Executive Service addresses this problem to the extent that executives' compensation will not be based on the number of employees managed, or other similar, partial measures. Rather, compensation—and rank—will depend on overall performance. Parallel initiatives will also be explored. These include the idea of providing more resources to those supervisors whose units have been most cost-effective in the past.

I would only add that the budgeting problem is far less tractable than many seem to believe. If we knew with confidence which governmental agencies were efficient and effective, and which were not, comparisons would be easier to make, and budget disincentives and inequities could more readily be corrected. Unfortunately, we do not have this knowledge; consequently, budgeting decisions tend to be made with respect to particular situations. As our understanding of productivity improvement and measurement grows, more generally-based budgeting decisions should become possible. At that point, incorporating productivity considerations in budget decisions will be more feasible than it is today.

3. *Centralized personnel regulations.*—The need to decentralize personnel decisions lay at the heart of Civil Service restructuring. Decentralization is taking place in two directions. First, personnel decisions have been delegated from a central Federal agency to the various departments. Second, we are encouraging organizations to move these decisions out of the exclusive realm of the staff specialist and into that of the line manager. In other words, we are trying to locate personnel functions where the action is.

EVALUATION AND TRAINING

Since Civil Service Reform and restructuring are still so new, it is not yet possible to quantify results. We have, however, developed a comprehensive evaluation strategy which will examine reform from three perspectives. The first perspective involves the extent, speed, quality, and effects of implementation throughout the Federal government. The second perspective will explore the implementation of specific reform initiatives in individual governmental units. These initiatives include the Senior Executive Service, performance appraisal, merit pay, and employee discipline. The third perspective will integrate the first two perspectives in order to provide an holistic evaluation of the entire reform. It will make use of public surveys, a Federal workforce questionnaire, overall productivity change measures, and a set of organizational assessments.

In addition to this evaluation program, the Office of Personnel Management is using training as a means of helping to reduce mismanagement, waste, and fraud in the Federal government. For example, one training course is directed at showing managers what they can do to eliminate fraud and other abuses within their agencies. At a more general level, we are supporting a training effort by an inter-agency audit group in the Department of Agriculture. We are also supporting, and cooperating with, the Treasury Department's Federal Law Enforcement Training Center for the training of law enforcement officers.

CONCLUDING COMMENT

I have covered a lot of ground in a very short period of time. Clearly, most of the things I have discussed are interrelated—as much so, perhaps, as productivity and management are. Collaboration will be required in many arenas. Indeed, it is likely that our success in improving Federal performance depends more on the interaction of our various initiatives—the President's Management Improvement Council, Civil Service Reform, the National Productivity Council, and other efforts—than on the effectiveness of each of these separately.

Senator BENTSEN. Mr. Campbell, I know that my colleague, Senator Proxmire, has also been deeply concerned with this issue for a long time. And it's welcome news to hear you talking about things such as compensating people on their effectiveness and efficiency, rather than just the number of personnel that they supervise.

Mr. STAATS, we have a very important announcement concerning you. We would like to wish you a Happy Birthday this morning. [Laughter.]

Mr. STAATS. Thank you very much.

Senator BENTSEN. Would you please proceed with your testimony.

STATEMENT OF HON. ELMER B. STAATS, COMPTROLLER GENERAL OF THE UNITED STATES

Mr. STAATS. Thank you very much, Mr. Chairman.

You asked in your letter that we comment on four subjects: Fraud, abuse, and error, including the need to do a better job in collecting money owned to the Government; the need to follow up and resolve internal audit reports which question the accuracy and validity of expenditures; and productivity improvement.

I'll summarize very briefly our findings on these first three subjects. I will not read the text of my prepared statement. I would like to read, however, the part of the prepared statement related to productivity.

First, our work involving fraud.

GAO has done work in this area for a great many years. We decided last year to give this area a higher priority, so in September 1978 we published the result of a review that we made of seven agencies to determine how well they were equipped to prevent and detect fraud.

The results were not very encouraging. There was no system to internally pull together information with respect to actual or alleged fraud. There was no focal point in these agencies to coordinate internal procedures and to follow up on fraud matters. Employees had lost interest because top management didn't follow up on reported cases and showed little interest in the whole subject. And there was excessive reliance on State and local governments to identify fraud in Federal assistance programs. Finally, we found the investigative staffs in the agencies were not well trained. Some 80 percent of them had no special training at all in investigative work. In January of this year, I established a special task force in the GAO of some 57 full-time people to undertake three efforts:

One, we established a toll-free telephone hotline over which we have received more than 5,000 allegations since January 18. Nearly 3,000 of these have been screened and are considered to be substantive. These need to be followed up by the agencies' inspectors general, and possibly the Department of Justice. Some 717 of these cases we have already referred to the inspectors general in the agencies. About 60 percent of the 3,000 calls, involve allegations of intentional wrongdoing on the part of either an employee of the Government or an employee working with someone outside, or by some recipient of funds from the Federal Government.

Senator BENTSEN. What percentage did you say?

Mr. STAATS. About 60 percent of the 3,000 cases. We've had a total of about 5,000 altogether. We've screened about 3,000 of these, and of the 3,000 about 60 percent of them indicate allegations of intentional wrongdoing. Now, that's the first part of this effort.

The second part we've decided to go into four agencies in depth and see what is wrong. If we can find where the internal processes, the internal controls have gone wrong, we will make separate studies, separate reports, on each of these to the Congress. In effect, we're making case studies, trying to take four different kinds of operations to see what kinds of controls are needed within an agency to prevent fraud in the first instance.

And then finally, we are making an overall review of about 20 to 25 agencies going back 2½ years to find out what has happened to fraud cases within those agencies; what disposition has been made. I think you would be interested in knowing that in the 23 agencies where we have complete or partially complete information, these fraud cases now add up to 154,281 cases. This is not complete. In some cases the agencies do not have the information centrally, so we'll have to go out to the field offices and get that information. But again, what we're trying to do here is to find out what has happened with respect to these fraud cases developed in the agencies.

Now, I'd like to refer you, if I may, to the section of my prepared statement where we deal with several things which we considered under the category of needed improvement in financial management.

We refer to the problem of collecting debts owed by the public to the Federal Government. We refer there to a figure of \$140 billion, but it ought to be clear there that that includes all debts and not necessarily past, current debts. But the important thing here is that agencies have not had an aggressive program to collect the debts owed the Federal Government.

The Treasury hasn't even had a system to require agencies to report the actual number and value of claims written off. However, we were able to obtain data showing that nine agencies wrote off over \$400 million in fiscal 1978 as uncollectible. Also we have some additional information which illustrates the magnitude of the Government's collection problems. Agencies having primary responsibility for collection reported expected losses on accounts and loans receivable of \$3.5 billion at September 30, 1978. This amount was a substantial increase over prior years.

Several actions have been taken by us and by the agencies and by the executive branch to try to deal with this problem. We consider it a fairly serious problem for the Federal Government, because of the increasing rate at which the situation has grown.

Second, we refer to some 14,000 audit reports in 34 agencies amounting to \$4.3 billion, where an action had not been taken within the agencies to resolve the issue of whether the auditor was right or whether the program administrator was right. In some cases these were allowed to run past the statute of limitations.

We refer also to the problem of obtaining full recovery of costs for foreign military sales, and this amounts to several billion dollars where we have not collected the amount that was due the U.S. Government by foreign purchasers.

As you know, the foreign purchasers, most of them, do not come directly to the manufacturer, they go through the Department of Defense. Because of the inadequate cost accounting system in the Department of Defense, we were in effect subsidizing foreign purchasers of these weapons to the extent of several billion dollars.

Senator PROXMIRE. You say several. Is it \$2, \$3, \$4, or \$8 billion?

Mr. STAATS. We have estimated that it's in the area of \$2 to \$3 billion.

And then finally we referred to the need for simply returning cash to the Treasury to avoid borrowing money by the Department of Defense.

Now, these all relate to work that we have done or we consider the need for improved financial management in the executive branch.

I would now like to turn to the productivity improvement section of my prepared statement. In doing so, I would like to refer to the fact that the origin of the work that we have done in this field goes back to a letter which Senator Proxmire sent to me following the conversations that he and I had. His letter was dated September 21, 1970. I would like to insert that in the record, if I may, with my letter of response to it.

[The letters follow:]

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C., September 21, 1970.

The Honorable ELMER STAATS,
Comptroller General of the United States,
General Accounting Office,
Washington, D.C.

DEAR ELMER: In light of our recent conversation regarding the importance of better information relating to the productivity of government workers, I am writing to urge that the General Accounting Office undertake a comprehensive evaluation of the possibilities for measuring productivity in the Federal sector of the economy.

In view of the importance of the Federal sector to the economy as a whole and in view of the responsibility vested in Congress for controlling Federal expenditure, I find it distressing that we have no real measures of the efficiency of the Federal sector. I recognize that there are major conceptual and practical difficulties involved in the measurement of government productivity. These stem particularly from the fact that performance of many of the service activities in which government workers engage is difficult to describe in quantitative terms.

Yet, productivity measures have been developed for the private sector of the economy despite similar conceptual difficulties. Furthermore, studies undertaken by the Bureau of the Budget in the early 1960s identified a number of areas of government activity where productivity measurement was feasible. These areas included the Post Office, the disbursement activities of the Treasury and the Social Security Administration, and the reforestation activities of the Bureau of Land Management. I also understand that some studies were undertaken earlier within the Department of Defense. However, with the exception of the Post Office studies, these efforts have now largely been abandoned.

It puzzles me that at a time when there is such concern over the growth of Federal expenditures, when vital programs are stymied and important appropriations vetoed in an effort to hold down spending, we should abandon efforts to measure the productivity of Federal workers. The President has recently appointed a National Commission on Productivity, but to my knowledge, they have been given no mandate to examine the productivity of the government sector.

Because of the responsibility of the General Accounting Office to advise Congress on the efficiency with which Federal monies are expended and particularly because of the apparent failure of the Executive Branch to pursue further productivity studies, the GAO would provide an important service to Congress and the Nation by viroously attacking this problem of productivity measurement.

Sincerely,

WILLIAM PROXMIRE, U.S.S.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., December 31, 1970.

Hon. WILLIAM PROXMIRE,
U.S. Senate,
Washington, D.C.

DEAR SENATOR PROXMIRE: On September 21, 1970, you wrote me urging that the General Accounting Office undertake a comprehensive evaluation of the possibilities for measuring productivity in the Federal sector of the economy. We have looked briefly into the current status of such efforts in the Executive Branch. I am summarizing below our findings to date and our plan for continuing work on this subject.

There is strong recognition in the issuances of the Office of Management and Budget and the General Accounting Office of the importance of performance measurement. OMB Circular A-44, revised and reissued on February 16, 1970, requires the establishment of a formal, organized program in each agency for ". . . identifying quantitative measures of performance, establishing performance goals, measuring performance, analyzing the results, and initiating corrective actions."

GAO's pamphlet on "Accounting Principles and Standards for Federal Agencies" published in 1965 (with 1968 revisions) provides that: "Cost accounting techniques should include, wherever appropriate and feasible, the production of quantity data relating to performance or output so as to make it possible to relate

costs of performance with accomplishments and to disclose unit cost information. Such information is essential in implementing the planning-programming-budgeting system prescribed by the President for executive agencies and can be of great value in setting performance standards and managing current performance."

The use of productivity measurement is probably most extensive in the Post Office Department, Department of Defense supply and logistic activities, Social Security Administration, Veterans Administration insurance functions, Treasury Department disbursing, and Federal Aviation Agency equipment maintenance. In addition, many agencies utilize work measurement and performance standards to plan the staffing and evaluate the efficiency of selected functions, generally those involving repetitive operations.

However, the degree to which existing programs are effectively related to financial management, or used by top management to improve operating efficiency, appears to vary widely. Furthermore, only rarely is productivity measurement used, as proposed in the 1964 Budget Bureau report, to relate outputs to all associated inputs in physical terms, in order to reflect overall trends in the productivity of large activities or organizations. In the absence of such trend data, economists must assume a zero growth rate in the productivity of the Federal sector.

Hence, I believe that renewed and expanded progress in the use of productivity measurement is very timely. As your letter suggests, there are many difficulties to be surmounted, and new techniques may need to be developed and tested. I believe that this can best be accomplished by joining the efforts of the Office of Management and Budget, the Civil Service Commission, and the General Accounting Office. The purpose of this joint project would be to identify, for each principal agency, the types of productivity measures which are feasible and significant, and then to plan a long-term program to develop and utilize such measures. This joint project should begin in the near future.

In addition, I am instructing our audit divisions to consider ongoing work measurement and productivity measurement programs in connection with our management reviews in the departments and agencies. In this connection, we will inquire into whether comparisons are made with other Government agencies or private enterprises where agency performance standards or productivity measures lend themselves to such comparisons.

I will keep you informed of our progress on the above projects, and will welcome your further comments.

Sincerely yours,

ELMER B. STAATS,
Comptroller General of the United States.

MR. STAATS. Following the work which we initiated as a result of that letter, we set up a task force jointly with the Office of Management and Budget and the then Civil Service Commission working with the Bureau of Labor Statistics in an effort to seek whether we could measure productivity in the Federal Government. In a report we made on June 30, 1972, we concluded that it was possible to measure, and in fact we had measured up to that point roughly 60 percent of the output of all Federal employees. That figure is now about 67 percent.

You have referred to the possibility that that percentage could be increased and we agree that it could be increased by some amount. We're not sure about the 85-percent figure, but it could be increased by some amount with very few additional employees in the Bureau of Labor Statistics. We understand that they asked for three additional employees last year and were denied those three employees. We think that was a mistake.

But also we need to keep in mind here that we are talking about a percentage, whether it's 67- or 75- or 85-percent, and that we're not measuring the output of the entire private sector either. So, that we don't necessarily feel that it is a shortcoming of the system we have in the Federal Government simply because we're not measuring a

much higher percentage, because BLS is not measuring a lot of activities that take place in the private sector either for the same reason, the difficulty of measuring the output.

I would like to say that in the 5 years covering our work, 1968 to 1972, we found that actual measured productivity had saved \$1.5 billion in wage costs in 54 agencies.

Senator PROXMIRE. You say you were able to save one and a half billion dollars how again?

Mr. STAATS. By the actual measured increased productivity of the Federal employees.

Now, broad measures of Federal Government productivity have been developed for about two-thirds of total Federal employees, as I have already mentioned. These measures indicate that Federal productivity has been increasing about 1.2 percent per year since 1967, or slightly less than the depressed rate of the increase in productivity in the private sector, which as you know has been running about 1.6 percent.

There are significant benefits to be derived from improved productivity of the Federal work force. If overall productivity could be increased by only an additional 1 percent, 29,000 fewer workers would be needed to provide the present level of goods and services. Two potential changes could result from such an improvement in the use of people. The level of goods and services could be increased using the same number of workers, or the work force could be cut and result in budget reductions.

The barriers to achieving productivity growth in the Federal Government as we have ascertained them are eight in number: The absence of a profit motive; the diverse missions; lack of high-level interest both in the executive branch and the Congress; the disincentives of classification standards and the budget process; the lack of incentives—positive or negative—to enhance productivity; the difficulty of developing meaningful measurements for some programs; the absence of specific goals; and the unnecessary regulations and controls that erode the manager's ability to manage. All of these contribute to creating a climate that needs to be dramatically changed to achieve productivity growth.

The new Civil Service Reform Act goes a long way toward removing many of these barriers as we see them. However, we believe that top management emphasis through a focal point is still needed to tie together Federal productivity efforts. Such a focal point should serve as a catalyst to making managers consider productivity improvement as a normal part of their responsibilities.

Further, agencies need a source for management assistance in problem solving or technical guidance in such efforts as establishing agency-level measurement systems. In addition, a focal point can provide a clearinghouse for transferring ideas between and among agencies.

In our report on the National Center for Productivity and Quality of Working Life, we recommended the establishment of a leadership role for the Federal sector in productivity in either the Office of Management and Budget or the Office of Personnel Management. The Office of Personnel Management has since been given this role, as Mr. Campbell has already indicated here this morning. They have

subsequently designated an organizational unit specifically for the productivity improvement tasks. We regard this as a significant step forward and look forward to working with them.

I'd like to note that we have performed and are performing a number of evaluations designed to assess the adequacy of individual Federal agency measurement systems. In general, we have found that agencies are not developing accurate measures of performance.

For example, we found that work measurement standards are not based on accurate information.

Second, the reporting of work measurement data is generally untimely and inaccurate. High-level managers usually do not have a sufficient commitment to developing and using work measurement systems. The use of performance measurement data as a management tool has been very sporadic, depending mostly on the motivation and commitment of individual managers.

The basic problem of providing accountability in government is the lack of management incentives to do so. Without incentives, the ultimate accountability of internal control and management are weak at best. We firmly believe that any effort to improve accountability in government must incorporate proper incentives and include requiring the use of productivity data in the budget process, and the use of productivity measures in evaluating performance is part of a new system of rewarding government management for performance.

The budget process, as the lifeblood of Federal agencies, provides the most appropriate method for encouraging management improvement in agencies. However, as the budget process now functions, many agency executives and managers believe that productivity-related improvements often result in a penalty rather than a reward. Examples given to us include arbitrary across-the-board reductions in staffing and reduction of the next year's budget to force continued improvement.

Officials in all of the agencies we've contacted gave examples of how budget reviews in both the OMB and the Congress seemed insensitive to what agencies believed were innovative proposals to increasing productivity. To them, the distressing message was that genuine efforts at improving productivity were often met with, at best, apathy or, at worse, arbitrary budget cuts.

This management environment can be significantly improved by providing meaningful incentives to agency managers. This will require an attitudinal change about the significance of efficiency and good management. The change in attitudes must be reflected in the budgetary process, both at OMB and in the Congress, and at the individual employee level.

Without attaching real importance to programs designed to improve management, these programs are likely to fail.

Examples of appropriate incentives would include providing organizations with a share in savings produced by productivity improvement and providing managers with flexibility to reallocate staff based on productivity gains.

If an organization's goals and objectives are linked to managers's rewards, managers will make specific efforts to improve performance. This was clearly shown in our examination of 13 agencies, of which only two relate their incentive rewards to organizational goals. Even

though most of the 13 activities had established organizational goals, and further, had management information systems which related actual performance to organizational goals, these organizations generally did not hold managers accountable or reward them on how well they achieved their goals.

In contrast, incentive plans in private companies are linked to company goals and start at the top where decisions are made and then filter down through the management structure. Generally, the goals for top managers involve company profits and rates of return. These managers are eligible for incentive awards, based on how successful the business is in meeting its goals and upon their personal contributions to the success.

Many case studies have been documented of Government activities and private sector companies obtaining significant productivity increases through the use of an incentive awards program. One Department of the Navy activity which we reviewed is a good example of the productivity gain that can result from an effective incentive awards program. Low productivity, leave abuse, high turnover, and low morale among data transcribers were a serious problem at a west coast naval shipyard.

The Navy installed a system to identify and award employees whose individual performance exceeded normal expectations. During the first year the new incentive program was used, productivity increased 18 percent. In addition, overtime requirements which had previously averaged 54 hours per week were virtually eliminated, and a significant work backlog was eliminated.

Because of the improvements at the first shipyard, the program was implemented at other west coast shipyards with the same positive results. The Navy is currently trying to implement a similar program for all installations employing data transcribers. They have projected minimum annual cost savings of \$920,000 for this one activity.

Although there is a direct and frequently measurable relationship between an incentive program and an organization's productivity, incentives alone will not bring about higher productivity. Incentives obviously are not a substitute for good management, rather they are part of a management system's approach to obtaining higher productivity levels. But we believe it is equally incorrect to assume that an effective work force or higher productivity levels could exist without having an effective incentive award program.

In conclusion, I'd like to emphasize that the recurring theme in government fraud, mismanagement and declining productivity is the lack of accountability at all levels of government.

Instituting good management systems, which include performance measurement, can greatly increase accountability in government. In order to make these systems effective, though, managers need more than a vague concern for better governments; they need incentives that directly affect them on a daily basis.

The recent actions by the executive branch to reduce waste and fraud and improve management are encouraging. The establishment of the Executive Group to Combat Fraud and Waste in Government, of which Mr. Civiletti is the chairman, and the Presidential Management Improvement Council, which Mr. Campbell has described here this morning, highlights the significance the executive branch attaches to these issues.

The Civil Service Reform Act is a positive step in increasing manager accountability and relating pay and awards to employee performance.

While these efforts are in the right direction, they do not alone provide the needed change. Much will depend on the future work of the Office of Management and Budget and the OPM and the Congress, and, of course, individual agencies.

We believe that the OMB should require productivity data to support the agency budget requests; provide departments and agencies with incentives in the budget process to improve management; and identify management issues for the attention of departments and agencies; provide support for agency management improvement efforts.

The OPM should insure that the agencies have quantifiable performance measures in their performance appraisal and incentive awards programs to provide the proper link between pay and performance; and provide technical assistance to departments and agencies in the development of performance measures.

The Congress, like the OMB, should consistently require that departments and agencies support budget requests for productivity data and encourage and reward those departments and agencies that demonstrate good management.

It is also up to each individual agency to take steps to improve its management practices and manager its resources effectively, free of waste, fraud, and inefficiency.

In addition, we in GAO intend to give these efforts our top priority.

I'd like to insert at this point, Mr. Chairman, some 10 ongoing studies that we have in process in the GAO relating to productivity in the Federal Government itself.

[The information follows:]

COMPLETED AND ONGOING WORK BY THE U.S. GENERAL ACCOUNTING OFFICE ON
PUBLIC SECTOR PRODUCTIVITY

COMPLETED WORK

The Federal Role in Improving Productivity—Is the National Center for Productivity and Quality of Working Life the Proper Mechanism? (FGMSD-78-26, May 23, 1978).

State and Local Government Productivity Improvement: What Is the Federal Role? (GGD-78-104, December 6, 1978).

The Government Can Be More Productive in Collecting Its Debts by Following Commercial Practices. (FGMSD-78-59, February 23, 1979).

Does the Federal Incentive Awards Program Improve Productivity? (FGMSD-79-9, March 15, 1979).

Federal Productivity Suffers Because Word Processing Is Not Well Managed. (FGMSD-79-17, April 6, 1979).

Improving Federal Agency Efficiency Through the Use of Productivity Data in the Budget Process. (FGMSD-78-33, May 10, 1978).

Increased Productivity Can Lead to Lower Costs at Federal Hydroelectric Plants. (FGMSD-79-15, May 29, 1979).

Full Potential To Achieve Savings by Investing in Fast Payback Productivity Enhancing Capital Equipment Not Realized. (FGMSD-78-44, July, 25, 1978).

ONGOING WORK

Survey of productivity and productivity measurement systems of VA hospitals as compared with DOD, public and private sector hospitals.

Productivity comparison of building maintenance functions in the public and private sector.

- Development of a guide for evaluating productivity measurement systems. A study of the feasibility of improving the productivity of the Patent Office through automation.

- Review of productivity of payment center travel processing.

- Review of the productivity of Federal payment centers.

- Review of productivity data usage in the budget process of the Defense Logistics Agency.

- Review of potential productivity benefits in the administration of Federal benefit programs—Unemployment Insurance.

- A productivity appraisal of the U.S. Postal Service's Mail Processing Department.

Mr. STAATS. Finally, since you have been concerned in your previous hearings with the subject of private sector productivity, I have attached to my prepared statement, which you have before you, a list of the ongoing, recently completed work involving the private sector because we have now established a national productivity group, which Mr. Brian Usilaner here heads up in our Financial and General Management Studies Division, which is concerned with both the Federal Government and private sector productivity.

One of the things we have found is that we can make useful analyses of common activities in the private sector and the Federal sector to see why one is more or less productive than the other; what leads we can develop from these kinds of comparisons. So, we have now a number of studies in process where we are looking at the common activities between the Government and the private sector. Two of these have already been issued. One recently on hydroelectric power and one on debt collection. We have ongoing studies in such areas as legal services, maintenance services, and many other activities where we feel that by comparing, not just costs, because that could be misleading, but rather the productivity of common activities in the private and public sectors.

This concludes my statement.

Senator BENTSEN. Thank you, Mr. Staats, very much.

[The prepared statement of Mr. Staats, together with an attachment, follows:]

PREPARED STATEMENT OF HON. ELMER B. STAATS

INTRODUCTION

Mr. Chairman, we are here today at your request to discuss the important topics in your letter of May 22, 1979. Specifically, I will discuss the problems of fraud, mismanagement, particularly in the area of financial management, and the need to improve productivity in carrying out Federal programs. We in GAO believe that these issues are related in that it is in the absence of accountability that fraud, mismanagement, and declining productivity can continue unchallenged.

Accountability may be considered a clear responsibility for producing at the lowest cost the goods and services necessary to effectively accomplish an organization's mission. In business, managers are held accountable by the profit and loss statement. No such mechanism exists in the Federal Government and agency revenues do not depend on effective performance. Therefore, it is essential that a mechanism be established that holds Federal managers accountable in the same manner that a profit and loss statement holds business managers accountable.

Much has been heard in recent months about fraud in Government as well as numerous charges of waste and mismanagement. The effect of waste and mismanagement is in part demonstrated through low Federal productivity. Federal Government productivity improvement recently has been much less than it can and should be.

Based on the statements of political leaders, the press, interest groups and numerous individuals, it is fair to say that there has been a loss of public confidence in Government. "Proposition 13" and similar actions taken by voters in many states attest to this fact. Public opinion polls support this conclusion.

Summarizing these polls, a writer in a recent issue of Fortune magazine said, "Not since the days of the Great Depression have Americans been so complaining or skeptical about the quality and character of their country's public performance." He stated that Americans have lost "confidence that Government can accomplish those things the people want done * * *." He concluded that "the tax protest is based on a genuine belief that Government can and should do all that it is doing—but much more efficiently." The call, he says, is "not for less government but for better government." This means more accountability for performance. I would like to address how increasing accountability can help in reducing fraud and mismanagement in the Federal Government and improving Federal Government productivity.

REDUCING FRAUD IN FEDERAL GOVERNMENT OPERATIONS

In mid-1976, the General Accounting Office undertook an effort to determine whether Federal agencies and instituted effective policies and procedures for combating fraud that might exist in their programs, whether committed by Federal employees, by recipients of Federal assistance, or by others. This effort culminated in a report to the Congress entitled "Federal Agencies Can and Should Do More to Combat Fraud In Government Programs," (GGD-78-62, September 19, 1978).

Although bright spots existed here and there with respect to individual agencies antifraud activities, we found many problems in the Government's ability to fight fraud.

The Government's financial assistance programs are vulnerable targets of fraud and related white-collar crimes as are Federal programs involving grants, contracts, and loan guarantees. Identifying the extent, nature, and frequency of these illegal acts, together with strong internal controls and effective audit coverage, are essential first steps to combating and preventing them. Yet the agencies we have reviewed were not doing nearly enough to identify fraud.

HOW MUCH FRAUD IS THERE?

No one knows the magnitude of fraud against the Government. Hidden within apparently legitimate undertakings, is usually is unreported and/or undetected. Opportunities for fraud, however, are tremendous when you consider the magnitude of some Government disbursements. For example:

The Veterans Administration has annual outlays of approximately \$18 billion in support of veteran benefits.

The Department of Health, Education, and Welfare has annual outlays of approximately \$109 billion in welfare payments, \$10.5 billion in grants to States for Medicaid, and \$3 billion for student assistance.

Federal procurements in fiscal year 1977 were almost \$80 billion, including GSA procurements for supplies and services, and DoD procurements of major weapons systems.

We found that agencies had not established management information systems to deal with the fraud problem. They did not know the amount of identified fraud in their programs and they could not estimate the potential amount of fraud.

Until recently, agencies have not made fraud detection a high priority because their overriding concern has been program execution and emphasis on such program objectives as providing loan assistance. The low priority given to fraud detection leads to passiveness regarding potentially fraudulent situations.

Also, none of the agencies we reviewed have, until recently, designated a focal point responsible for seeking out and identifying fraud. Consequently, they have generally taken a reactive, rather than active, approach to fraud detection. However, a reactive approach is inadequate for detecting fraud, since there is often no specific incident to react to.

In the past, agencies had no assurance that program administrators were referring all suspected frauds for investigation because:

There were no controls to see that suspicious matters were reported. Large workloads hindered identifying suspected fraud by program personnel.

Employees lost interest in reporting suspected frauds when follow-up actions, such as investigations and prosecutions, were not promptly taken.

Many Federal programs are administered by State, local, or private sector institutions, and Federal agencies often unjustifiably relied on those non-Federal entities to identify and report frauds.

In addition, agency investigators often did not have the background, experience, and training needed to effectively detect and identify fraud.

Since our report was issued, the Inspector General Legislation has been enacted and all but one Inspector General have been appointed. While this is a step in the right direction, more needs to be done.

All too often, fraud cases are viewed as isolated, one-time incidents with no attention given to the weak controls that allowed them to occur in the first place. Top management must recognize the need for and take a more active role in making improvements. It makes little sense to establish an Inspector General system to prevent and detect fraud and abuse and at the same time, have an agency management that takes a passive role in these activities and views them as the exclusive domain of the investigators and auditors. In my opinion, the best Inspector General system, the best audit, the best investigating system that can be devised will be of little use if management does not become an active partner in the process or fails to use the necessary controls.

ESTABLISHMENT OF A GAO TASK FORCE

Last year I established a Special Task Force for the Prevention of Fraud. We have allocated substantial staff resources over the next two fiscal years to carry out the task force work. The major responsibilities of this group are to—

Evaluate the adequacy of the management control systems in Federal agencies that are necessary for the prevention of fraud, and

Assess the adequacy of the follow-up corrective actions taken on reports of auditors and investigators.

One effort of the task force has been the establishment of a telephone "hotline." We have received literally thousands of calls since we implemented the "hotline" on January 18, 1979. However, not all calls are written up for further analysis because they are obviously non-substantive or are state of local matters. We try not to be ombudsmen, although such a role is difficult to avoid.

Even with the initial screening, over 5,000 allegations were written up. About 64 percent of these cases appear to have substance for either investigation or audit. For example, of 4,559 allegations written up and coded for computer analysis, 2,979 appear to warrant investigation or audit. We categorized about 39 percent as mismanagement and 61 percent as intentional wrongdoing.

EMPHASIS SHOULD BE ON PREVENTION, NOT DETECTION

Since prevention is GAO's top priority in the fight against fraud, our work concentrates on identifying and getting agencies to correct internal control weaknesses that permit fraud to occur. When systems have been properly developed and are functioning as planned, the possibility for fraud, theft, or error is greatly diminished. Where the systems do not exist, or are not being used properly, the opportunities to defraud the Government and the possibilities of error increase dramatically.

GOVERNMENT MISMANAGEMENT

Government mismanagement is a recurring problem identified in many of our reviews. We consider mismanagement broadly to be the failure of managers to give proper attention to program controls and costs.

The extent of mismanagement in Government is almost understandable given that managers often are not held accountable for program results. However, since Government revenues are not dependent upon effective performance, the need for accountability is particularly great.

One area in which we have found a number of cases of mismanagement is in Federal financial systems. A good financial management system can provide managers with the information needed to conserve, control, protect, and wisely use resources. A weak financial management system can play a large part in causing agencies to—

- Incur excessive costs to achieve goals;
- Overobligate and misuse funds;
- Lose control over cash, property, and other assets;
- Fail to collect accounts receivable;
- Unnecessarily delay collection of receivables; and
- Lose control over accounts payable and, as a result, fail to identify and pay debts on time.

EFFECTS OF POOR FINANCIAL MANAGEMENT

The lack of effective financial management among other things has resulted in unnecessary Federal expenditures or in failure to collect promptly amounts due the Government. Some cases discussed in GAO reports and testimony include the following:

The Government needs to do a better job of collecting amounts owed by the public. We identified \$140 billion in accounts and loans receivable owed to the Federal Government. Many of these were past due. We found that most Government agencies did not take prompt and aggressive action on collecting delinquent accounts receivable nor adhere sufficiently to prescribed collection procedures.

In nearly 14,000 audit reports of 34 agencies, \$4.3 billion in audit findings had not been resolved. We estimate that about 80 percent of this amount involves potential recoveries from grantees and contractors, including what they either spent for purposes not authorized by Federal laws and regulations or could not support as charges to the Government. The remaining 20 percent involves potential savings in operating costs.

The financial management system in the Department of Defense for foreign military sales is fragmented, lacks long range planning, and does not have uniform standards. Although applicable law requires full recovery of costs, many weapons have been sold to Foreign Governments at less than cost because the accounting system did not accumulate costs accurately. Billions of dollars of accounting errors, reporting delays, and other serious financial management weaknesses also prevent the Department from meeting its fiduciary responsibility to its foreign customers.

The Department of Defense could save millions of dollars annually by simply returning excess cash to the Treasury.

These examples provide but a sampling of the problems in the area of financial management. The existence of these problems in financial management was recognized in a May 7, 1979 memorandum from the Director of the Office of Management and Budget to the Heads of Executive Departments and Agencies explaining the Financial Priorities Program. The program is to resolve the major financial management issues facing the Government today, including accounting systems, internal control, audit follow-up, debt collection, and grant accountability. We look forward to working with OMB in this effort.

There are other areas of mismanagement which I will not elaborate on here today except to say that we find that waste occurs because of poor procurement practices, ineffective use of Government-owned assets, inefficient maintenance practices, and similar uneconomical practices.

PRODUCTIVITY IMPROVEMENT

Although productivity has long been recognized as important for a strong national economy, its value in the government sector has largely been ignored. Yet, governments at all levels employ one out of every six American workers. The productivity of government workers is an important factor in the national economy.

Broad measures of Federal Government productivity have been developed for about two-thirds of total Federal employment. These measures indicate that Federal productivity has been increasing about 1.2 percent per year since 1967, or slightly less than the depressed rates of increase in the private sector.

There are significant benefits to be derived from improved productivity of the Federal work force. If overall productivity could be increased by only an additional 1 percent, 29,000 fewer workers would be needed to provide the present level of goods and services. Two potential changes could result from such an improvement in the use of people. The level of goods and services could be increased using the same number of workers, or the work force could be cut and result in budget reductions.

Barriers to achieving productivity growth in the Federal Government are many: the absence of a profit motive, the diverse missions, the lack of high-level interest both in the executive branch and the Congress, the disincentives of classification standards and the budget process, the lack of incentives (positive or negative) to enhance productivity, the difficulty of developing meaningful

measurements for some programs, the absence of specific goals, and the unnecessary regulations and controls that erode the managers' ability to manage. All of these contribute towards creating a climate that needs to be dramatically changed to achieve productivity growth.

The new Civil Service Reform Act goes a long way toward removing many of these barriers. However, we believe that top management emphasis through a focal point is still needed to tie together Federal productivity efforts. Such a focal point should serve as a catalyst to making managers consider productivity improvement as a normal part of their responsibilities. Further, agencies need a source for management assistance in problem solving or technical guidance for such efforts as establishing agency-level measurement systems. In addition, a focal point can provide a clearinghouse for transferring ideas between agencies.

In our report on the National Center for Productivity and Quality of Working Life (FGMSD-78-26, May 23, 1978), we recommended establishment of a leadership role for Federal sector productivity in either the Office of Management and Budget or the Office of Personnel Management. The Office of Personnel Management has since been given this role. They have subsequently designated an organizational subelement specifically for the productivity improvement task. We think this is a significant step forward.

ACCOUNTABILITY AND CONTROLS ARE NEEDED FOR GOOD MANAGEMENT

Holding managers accountable for effectively using resources requires that there be tools available for assessing performance. Performance measurement systems such as productivity and work measures, provide tools by which changes—hopefully improvement changes—can be tracked. Further, such measures can function both as a control tool to aid in highlighting organizations where accountability is possibly being lost, and as a tool which can show whether performance is better in one period than in another.

We have performed and are performing a number of evaluations designed to assess the adequacy of individual Federal agencies' measurement systems. In general, we have found that agencies are not developing accurate measures of performance. For example, in past GAO reviews we have found:

Work measurement standards are not based on accurate information, nor are they regularly reviewed and updated. Thus, standards reflect inefficient methods of accomplishing tasks, do not provide appropriate information, and are not credible. Also, the standards are integrated in with other measurement systems which would allow more extensive analysis of work being performed.

The reporting of work measurement data is generally untimely and inaccurate. Employees and low level managers do not understand the need for accurate information or are suspicious of the consequences. Reporting methods are generally not monitored.

High level managers usually do not have a sufficient commitment to developing and using work measurement systems, goals and objectives are not clearly defined nor followed. Consequently, the full uses of such a system are not developed.

The use of performance measurement data as a management tool has been very sporadic, dependent mostly on the motivation and commitment of individual managers. This data is needed to set performance goals and show how Federal managers are using resources. We believe there will be continued difficulty in holding managers accountable for funds until performance data is developed and used.

INCENTIVES ARE NEEDED TO IMPROVE ACCOUNTABILITY

A basic problem in providing accountability in Government is the lack of management incentives to do so. Without incentives, the elements of accountability—internal control and measurement—are weak at best. We firmly believe that any effort to improve accountability in Government must incorporate proper incentives that include requiring the use of productivity data in the budget process and the use of productivity measures in evaluating performance as part of the new system of rewarding Government managers for performance.

The budget process as an incentive

The budget process, as the lifeblood of Federal agencies, provides the most appropriate method for encouraging management improvement in agencies. However, as the budget process now functions, many agency executives and managers

believe that productivity related improvements often result in a penalty rather than a reward. Examples given to us include arbitrary across-the-board reductions in staffing and reduction of the next year's budget to force continued productivity improvement. Officials in all of the agencies we have contacted gave examples of how budget reviews in both the Office of Management and Budget and the Congress seemed insensitive to what agencies believed were innovative proposals to increasing productivity. To them, the distressing message was that genuine efforts at improving productivity were often met with, at best, apathy or at worse, arbitrary budget cuts.

This management environment can be significantly improved by providing meaningful incentives to agency managers. This will require an attitudinal change about the significance of efficiency and good management. The change in attitudes must be reflected in the budgetary process—both at OMB and in Congress—and at the individual employee level. Without attaching real importance to programs designed to improve management, those programs are likely to fail.

Examples of appropriate incentives would include providing organizations with a share in savings produced through productivity improvement and providing managers with flexibility to reallocate staff based on productivity gains.

Linking pay to performance as an incentive

If an organization's goals and objectives are linked to manager's rewards, managers will make specific efforts to improve performance. This was clearly shown in our examination of 13 agencies, of which only two related their incentive awards to organizational goals. Even though most of the 13 Federal activities had established organizational goals, and further, had management information systems which related actual performance to organizational goals, these organizations generally did not hold managers accountable or reward them on how well they achieved their goals.

In contrast, incentive plans in private companies are linked to company goals and start at the top where decisions are made, and then filter through the management structure. Generally the goals for top managers involve company profits and rates of return. These managers are eligible for incentive awards based on how successful the business is in meeting its goals and upon their personal contributions to the success.

Many case studies have been documented of Government activities and private sector companies obtaining significant productivity increases through the use of an incentive awards program. One Department of the Navy activity we reviewed is a good example of the productivity gains that can result from an effective incentive awards program. Low productivity, leave abuse, high turnover, and low morale among data transcribers were serious problems at a West Coast naval shipyard.

The Navy installed a system to identify and award employees whose individual performance exceeded normal expectations. During the first year the new incentive program was used, productivity increased 18 percent. In addition, overtime requirements which had previously averaged 54 hours per week were virtually eliminated and a significant work backlog was eliminated. Because of the improvements at the first shipyard, the program was implemented at other West Coast shipyards with the same positive results. The Navy is currently trying to implement a similar program for all installations employing data transcribers. They have projected minimum annual cost savings of \$920,000.

Although there is a direct and frequently measurable relationship between an incentive program and an organization's productivity, incentives alone will not bring about higher productivity. Incentives obviously are not a substitute for good management; rather they are part of a management system's approach to obtaining higher productivity levels. But we believe it is equally incorrect to assume that an effective work force or higher productivity levels could exist without having an effective incentive awards program.

CONCLUSION

In conclusion, I would like to emphasize that the recurring theme in the problems of Government fraud, mismanagement, and declining productivity is the lack of accountability at all levels of Government.

Instituting good management systems, which include performance measurement, can greatly increase accountability in Government. In order to make these systems effective, though, managers needed more than a vague concern for better Government; they need incentives that directly affect them on a daily basis.

The recent actions by the executive branch to reduce waste and fraud and improve management are encouraging. The establishment of the Executive Group to Combat Fraud and Waste in Government and the Presidential Management Improvement Council highlights the significance the executive branch attaches to these issues.

The Civil Service Reform Act of 1978 is a positive step in increasing manager accountability and relating pay and awards to employee performance.

While these efforts are in the right direction, they do not alone provide the needed change. Much will depend on the future work of the Office of Management and Budget, the Office of Personnel Management, the Congress and, of course, individual agencies.

We believe that the Office of Management and Budget should:

- Require productivity data to support agency budget requests.

- Provide departments and agencies with incentives in the budget process to improve management.

- Identify management issues for the attention of departments and agencies.

- Provide support for agency management improvement efforts.

The Office of Personnel Management should:

- Insure that agencies have quantifiable performance measures in their performance appraisal and incentive awards programs to provide the proper link between pay and performance.

- Provide technical assistance to departments and agencies in the development of performance measures.

The Congress, like the Office of Management and Budget, should consistently require that departments and agencies support budget requests with productivity data and encourage and reward those departments and agencies that demonstrate good management.

It is also up to each individual agency to take steps to improve its management practices and manage its resources effectively, free of waste, fraud, and inefficiency.

In addition, we in GAO intend to give these efforts our top priority.

Fraud, mismanagement, and declining productivity are important problems facing the Federal Government. Fortunately, the solutions to these problems appear to be well within our grasp if a concerted effort is taken to solve them.

Since your hearing yesterday focused on private sector productivity, I have attached to this statement a list of our completed and ongoing work in the area.

This concludes my statement. I would be pleased to answer any questions the Chairman or members of the Committee may have.

ATTACHMENT

COMPLETED AND ONGOING WORK BY THE U.S. GENERAL ACCOUNTING OFFICE ON PRIVATE SECTOR PRODUCTIVITY

Completed work

Manufacturing Technology—A Changing Challenge to Improved Productivity (LCD-75-436, June 3, 1976).

The Federal Role in Improving Productivity—Is the National Center for Productivity and Quality of Working Life the Proper Mechanism, (FGMSD-78-26, May 23, 1978).

Development of a National Productivity Clearinghouse, (FGMSD-79-4, December 12, 1978).

Ongoing work

- A productivity assessment of the shoe industry.

- A productivity assessment of the coal industry.

- Developing legislation to establish a national productivity policy.

- A study of the feasibility of automating the Patent Office to enhance the patent process.

- An assessment of the Department of Labor's quality of working life programs and their effect on productivity.

- A study of productivity sharing plans in the private sector and the effect the wage and price guidelines have on them.

- An assessment of the availability and constraints on venture capital formation and the impact on productivity growth.

- A review of the capital formation process.

- A review of Federal Government activities in providing trade and production data to Federal and private users.

- An assessment of the potential for space manufacturing.

A study of the present system of developing national measures of productivity by the Federal Government.

Senator BENTSEN. Mr. Civiletti, we are pleased to have you this morning. Please give us your testimony.

**STATEMENT OF BENJAMIN R. CIVILETTI, DEPUTY ATTORNEY
GENERAL, DEPARTMENT OF JUSTICE**

Mr. CIVILETTI. Thank you Mr. Chairman, Senator Proxmire.

I welcome the opportunity to appear before you to discuss the extent of fraud, abuse, and waste and our efforts to help control it, and the steps the administration has taken to deal with the problem, in conjunction with the steps that Congress has been taking.

I'll address briefly and in summary fashion the five questions in which you have expressed an interest in your communications to the Department.

First, what's the job or what do we anticipate President Carter's executive group to combat fraud and waste in Government is to do? I am the chairman and the Deputy Administrator of OMB, Mr. White, is the vice chairman of that group.

Well, that group combines for the first time the 14 Inspectors General, to the investigative and auditing arms of the benefit, program and procurement agencies, the largest departments and agencies in the Government, with the more traditional law enforcement groups; IRS, FBI, Postal Inspection Service, and others. The group will attempt, with the aid of the powers given to the Inspectors General and the Justice Department, and the powers added by the Civil Service Reform Act, to coordinate, strengthen, uniformly apply, and utilize these powers; to disseminate the information developed as a result of our joint experience; and to try to make sure that we're not acting, as we have so often in the past, inconsistently, counterproductively, or duplicatively in the same areas in the same manner.

In the early weeks of our existence the contributions of Mr. Thomas Morris, the HEW Inspector General, Tom McBride and Chuck Dempsey, the Inspectors General from Agriculture and HUD, who have had the most experience and success in dealing with these problems of fraud and waste in those departments and agencies, have been invaluable.

The executive group will provide policy and operational guidance to the Inspectors General, consistent with the policy and guidance given to law enforcement agencies with similar responsibilities throughout the Federal Government, in developing and helping to develop detection and prevention programs, improving the investigative and audit procedures, increasing cooperation among law enforcement agencies, improving training of audit and investigative personnel, allocating resources to the most vulnerable areas, attacking fraud and waste problems which cross department and agency boundaries, and developing legislative and regulatory proposals.

Informal groups, made up of representatives of the Department of Justice, OMB and the Inspectors General, already have developed initial policy papers for the executive group on the most effective utilization of the subpoena power now in the hands of the Inspectors General and methods for the referral of criminal matters to the Department of Justice, with which from time to time we have had difficulty, particularly with regard to expedition.

Special efforts have already begun to develop improved training for Inspectors General's auditors and investigators at the Federal Law Enforcement Training Center and at the Inter-Agency Auditor Training Center of the Department of Agriculture Graduate School, building on HEW's experience in utilizing computer screening projects. Continuing Inspectors General's sessions have focused on this technique, where appropriate.

In addition, the executive group will focus its attention on vulnerability analyses and fraud impact analyses, improving administrative remedies which so often are neglected or weak.

The GAO and the FBI work in coordination with the Inspectors General to enlarge the role of the Federal auditor in fraud and waste prevention, as well as certifying financial transactions and accounts; to improve program design itself with its impact on the fraud abuse and waste problem; and to increase State law enforcement coordination.

To this end, we have four committees, each of which is chaired by an Inspector General; enforcement, audit, legislation, and training and staffing. I personally have met with the Inspectors General on at least, I think, four occasions already, and my staff in the Criminal Division have been working regularly with them to maximize their effectiveness. The FBI has participated in the Inspectors General orientation. Judge Webster is planning a full day's session at Bureau headquarters for the Inspectors General and their staff to brief them and communicate with them on the Bureau's prospective role in the area of program fraud and white collar crime in general. That, I believe, is next week.

Although there is, as we all know, no quick cure for our deficiencies past or present, I believe that this executive group will be able to bring together the talent, the knowledge and the ideas and experience, and tools necessary to make major inroads on the problem of fraud and waste which is one side of the coin in which you're so terribly interested; the other side being mismanagement or inefficiency. And that we can make substantial progress by the integration of the various disciplines and remedies and the support of the Congress and the GAO as well as the executive branch.

The second area of questioning was what was the basis of the Department of Justice's estimates on the extent of fraud and abuse in Federal expenditures. I think it was popularly reported that I said that somewhere between 1 to 10 percent of Federal expenditures were subject to fraud and abuse. And has the percentage increased or decreased in recent years? And does the Department's estimate cover mismanagement, and can you provide us with such an estimate? Questions along those lines.

Well, first of all I think it important to go back to the March 15 testimony before the Senate Budget Committee in which I stated, and will quote to the particular question, "How much is lost each year from fraud and abuse in the Federal programs?" The answer given was:

Mr. Staats, I think, answered with the most accuracy in saying we don't know. Certainly, we in the Justice Department have handled simply the most aggravated cases and the most clear cases of fraud, both in investigation and prosecution. We've handled those enough to not put an accurate handle on total fraud or abuse, some of which in the abuse area, particularly, goes totally undetected. We have estimated, and it has appeared in some GAO reports, based on limited programs

in our experience in the prosecution of a particular area, that anywhere from 1 to 10 percent of particular program expenditures, depending on whether it's a procurement program or a benefit program, can be found to be lost through fraud or waste or gross abuse.

But that is not a basis from which to extrapolate to an overall figure of 10 percent or 1 percent or 5 percent or of any total number, no matter how appealing that might be to demonstrate the true seriousness of the fraud problem.

So, as I told the Senate Budget Committee and the like House subcommittee, our likely extent of fraud and abuse referred only to Federal programs intentionally investigated after detection and referral over to the Department of Justice.

The HEW Inspector General has attempted to quantify roughly fraud and abuse in his annual reports of 1978 and 1979, and various private and public organizations have ventured their own estimates. But realistically, all must admit that we really do not have an accurate figure or account. We do know, as I repeat, where there has been a concentrated audit or investigation, significant fraud, abuse, waste, and mismanagement have been uncovered, and these experiences generated both support for the Inspector General Act and the high priority given by the Attorney General and the administration to program fraud and procurement fraud as a major segment of the white-collar crime and economic crime problem.

The Department has taken some steps to meet this gap or inadequacy in our ability to estimate fraud and abuse in dollar terms, at least to the extent of referrals to the Department.

One such step is the Department's white-collar crime referral form, and another such step is a new program of the FBI designed to analyze by department, as well as by program, the results of their investigations. But there is no question in my view that the Congress, the executive's, and the public's perceptions of the extent of fraud and abuse in Federal expenditures have escalated in recent years. Our investigations of HUD and DOD and lately GSA programs have confirmed that the problem has been with us for a very long time and is nowhere near being solved.

In addition, the increased complexity of Federal spending and attempts to reduce administrative redtape and disperse administration of Federal funds, although all laudatory and valuable in their own right, may contribute to increased potential for fraud and abuse, which is often overlooked.

Until recently there was no increase in enforcement and administrative pressures internally to balance the other trends. With our new awareness, ours I mean collectively and not the Department's, these issues, the issue of vulnerability, of minimization, the issue of communication, the issue of repetition of frauds from one department or one program to another by the same perpetrators, or using the same practice, must be addressed, must be realized, and must be guarded against prior to the implementation of Federal programs or their substantial expansion, rather than years later, which has been the trend in response to particular public scandals.

Through the executive group, I hope that we will help to do that. There is some dispute as to the workability, the feasibility, of fraud impact statements, and that's a difficult area. But that's one of the issues which has been addressed and is being studied now.

With regard to measuring mismanagement or inefficiency, I have no particular expertise nor knowledge and would defer to Mr. Staats and Mr. Campbell.

What are the administration's goals for the reduction of fraud or waste? Of course the goals are substantial, therefore as much elimination, as much removal and reduction as is possible. Three years ago, although we were aware of the sizable losses in a lot of HEW programs, we didn't have the organizational mechanisms to identify those losses or to derive strategies for their reductions. The same is true in HUD's programs and others. But in just those two agencies, HEW and HUD, with the support of the Inspectors General we've not only achieved in HUD 900 convictions, but made marked improvements in the administration of HUD programs.

Without the interest and efforts of the Inspector General in Agriculture, recent improvements in the administration of the food stamp program would not have been possible.

I don't intend to set artificial dollar goals for the reduction of fraud and waste. The Department of Justice has tried to develop and implement a range of effective programs to help others to address this problem in an integrated and coordinated way.

On February 8, 1979, Attorney General Bell signed an order creating the economic crime enforcement units. I anticipate that over the next 2 years we will create approximately 30 such units throughout the country in the larger U.S. attorneys offices, containing up to 150 Department of Justice specialists, with a like number or more of U.S. assistant attorneys.

These units will direct and encourage Federal, State, and local agencies to orient their resources toward the efficient detection and pursuit of fraud and abuse. They will identify and articulate national and local priorities for each Federal judicial district and direct and focus prosecution and investigative resources on those priorities, where possible.

We've made significant strides in training auditors and investigators, but are not satisfied that they've gone far enough. I hope they'll be much better, much more sophisticated. I hope we'll be able to develop, through this executive group and with the help of Mr. Campbell, sensible standards, uniform standards, for the best possible people we can get in the investigative positions and the auditing positions.

Joint training of prosecutors and investigators is a new area. The FBI regularly brings agents now to Quantico, Va., for training in specific types of government fraud investigations, and joint U.S. attorney-FBI white-collar crime training conferences have been held twice a year with agents and investigators, and we hope now we can expand that to Inspectors General's investigators so that the three segments can sit down together in 1-week and 10-day sessions and gather the information and the training and the coordination necessary for the type of investigations that bring successful deterrent prosecutions.

We've reoriented our resources to meet our perception of the fraud and abuse problem in Government. Judge Webster has shifted FBI personnel to the investigation of fraud in Government programs, often in conjunction with some Inspector General's staff, and has instituted this month, I believe, new postreporting procedures for the first time which require the investigators in significant cases to identify program weaknesses, and I am going to instruct our prosecutors to do the same thing; those program weaknesses will then be

correlated here and communicated to the departments and agencies from which the cases have arisen. It's a simple matter. You'd think it would have been done long ago, but it hasn't been done in a uniform way. Certainly in social or in formal communication it's been done, but not in a systematic, analytic way.

Within the last year, we have instituted two programs to enable us to quantify the extent of fraud and abuse. First, through the computerized white collar crime referral form mentioned earlier, all investigations will be recorded and correlated with the U.S. attorneys' docket and reporting system. Second, the Bureau, through the use of its computers, reclassified investigative measures; and other measures have been taken by particular agencies and programs, as I've mentioned.

Senator BENTSEN. Mr. Civiletti, this is extremely interesting testimony. We'll take it in its entirety, but since other people are scheduled, please summarize in the next 5 minutes.

Mr. CIVILETTI. Sure.

As a part of that summary, question No. 4, in my prepared statement, indicates in small measure, by some examples, our view and strong feeling that the cost effectiveness of resources allocated to integrity and investigation is beneficial and shows a savings and a benefit in tax dollars of anywhere from a minimal 2-to-1 to a 10-to-1 ratio. I won't elaborate on those examples, but they are in the prepared statement.

Question No. 5 was really directed in substantial part to the disincentive problem to efficiency and management, which I don't address as well as Mr. Staats and Mr. Campbell. I think as far as it relates to fraud and abuse, it's more myth. As far as it relates to efficiency and mismanagement, it is substance. But with regard to fraud and abuse, if that's reduced, the benefits go to the beneficiaries, as intended. It seems to me that that demonstrates to the Congress and to the heads of the department or agency the competence of management, the ability to perform, and rather than be penalized for such conduct, I think that they will be rewarded as indicated in the Civil Service Reform Act and by some of the comments of Mr. Staats.

In general, I think we have made progress. Our records are better; they are not good yet, and we have a long way to go, but I think we have headed off or prevented the building of fortresses, independent fortresses, which will have their own method of doing business, which would be inconsistent perhaps with each other and which would make coordination and communication and prosecution, as well as detection, less effective, less efficient, and more difficult.

Thank you.

Senator BENTSEN. Does that complete your statement, Mr. Civiletti?

Mr. CIVILETTI. Yes, sir.

Senator BENTSEN. Thank you very much.

[The prepared statement of Mr. Civiletti, together with a memorandum, follows:]

PREPARED STATEMENT OF BENJAMIN R. CIVILETTI

Mr. Chairman and Members of the Joint Committee I welcome the opportunity to appear before you to discuss a subject of serious concern to the Department of Justice: the extent of fraud, abuse, waste and mismanagement in Government spending programs, and the steps the Administration is taking to deal with the problem. I will address briefly the five questions in which you have expressed an interest.

(1) WHAT WILL PRESIDENT CARTER'S EXECUTIVE GROUP TO COMBAT FRAUD AND WASTE IN GOVERNMENT DO? AND HOW WILL IT DO IT?

On May 3, 1979, President Carter directed the Attorney General, the Director of the Office of Management and Budget (OMB) and the Director of the Office of Personnel Management (OPM) to launch two initiatives—one for management improvement in government and the other for coordination of the anti-fraud and waste campaigns of the Inspectors General. He established the Presidential Management Improvement Council, co-chaired by the Directors of OPM and OMB, and the Executive Group to Combat Fraud and Waste in Government, chaired by the Deputy Attorney General, with the Deputy Director of OMB as Vice Chairman. Attached is a copy of the President's directive.

The principal purpose of these two organizations is to take advantage of the unique opportunities offered by the Civil Service Reform Act and the Inspector General Act to strengthen and improve agency management practices and to help keep the Government free of waste, fraud, and inefficiency.

Membership in the Executive Group includes the fourteen statutory Inspectors General and representatives of the principal law enforcement agencies, together with the Office of Personnel Management and the Office of Special Counsel of the Merit Systems Protection Board, in order to insure maximum coordination of the varied federal resources. The Group will have a small number of experienced professionals from Justice and OMB to serve as staff and to assist in research, review and analysis and to complete the proposals developed by the members. In the early weeks of our existence, the contributions of Thomas D. Morris, the HEW Inspector General, and Thoms McBride and Charles Dempsey, the Inspectors General from Agriculture and HUD, who have had the most experience and success in dealing with these problems of fraud and waste, have been invaluable.

The Executive Group will provide policy and operational guidance to the Inspectors General and others with similar responsibilities in the Executive Branch in developing detection and prevention programs, improving investigative and audit procedures, increasing cooperation among law enforcement agencies, improving training in audit and investigation techniques, allocating audit and investigation resources to the most vulnerable areas, attacking fraud and waste problems which cross department and agency boundaries, and developing legislative and regulatory proposals.

Since last year, the principal members of the Group have been meeting informally on a regular basis. Six days of orientation have been held for the new Inspectors General and their staffs in which the experiences of the HEW, HUD, and Agriculture Inspectors General have been shared, new ideas and problems have been discussed, and Congressional and Executive Branch expectations have been identified. Informal groups of Department of Justice, OMB and Inspector General representatives have developed initial policy papers for the Executive Group on the most effective utilization of the Inspector General's subpoena power and methods for referring criminal matters to the Department of Justice. Special efforts have already begun to develop improved training for Inspector General auditors and investigators at the Federal Law Enforcement Training Center and the Inter-Agency Auditor Training Center of the Department of Agriculture Graduate School. Building on HEW's experience in utilizing computer screening projects, continuing Inspector General sessions have focused on this new technique.

In addition, the Executive Group will focus its attention on vulnerability analysis and Fraud impact analysis; improving administrative remedies; GAO and FBI support of and coordination with the Inspectors General; enlarging the role of the federal auditor in fraud and waste prevention, detection and investigation; program design and its impact on the fraud, abuse and waste problem; and state law enforcement coordination. To this end four subcommittees have been formed within the Executive Group, each of which is chaired by an Inspector General: Enforcement, Audit, Legislation, and Training and Staffing.

I have met with the Inspectors General on several occasions, and my staff and the Criminal Division have been working regularly with them to maximize their effectiveness. The FBI has participated in the Inspector General orientation, and Judge Webster is planning a full-day session at Bureau headquarters for the Inspectors General and their staff to brief them on the Bureau's role in the area of program fraud and white collar crime in general.

Although there is no quick cure for past or present deficiencies that I or any other law enforcement person can responsibly offer, I believe that the Executive Group will be able to bring together the talent, knowledge, ideas, experience and enforcement tools necessary to make the major inroads on the problem of fraud

and waste. Progress will come through the integration of various disciplines and remedies and the support of the Congress and GAO, as well as the Executive Branch. It will also require the support of all federal employees and of the program designers and managers. Lastly, and most importantly, all the deterrent and control mechanisms, criminal and civil remedies, and agency administrative actions must function together.

- (2) WHAT WAS THE BASIS OF DEPARTMENT OF JUSTICE ESTIMATES ON THE EXTENT OF FRAUD AND ABUSE IN FEDERAL EXPENDITURES? HAS THE PERCENTAGE INCREASED OR DECREASED IN RECENT YEARS? DOES YOUR ESTIMATE ALSO COVER MISMANAGEMENT? IF NOT, CAN YOU PROVIDE US WITH SUCH AN ESTIMATE?

First, I want to refer with precision to my testimony of March 15, before the Senate Budget Committee.

I have in my testimony proposed answers to the major questions asked by this committee as a highlight or a window into the problem of government fraud and abuse. For example, how much is lost each year from fraud and abuse in Federal programs?

Mr. Staats, I think, answered with the most accuracy in saying we don't know. Certainly we in the Justice Department have handled simply the most aggravated cases and the most clear cases of fraud, both in investigation and prosecution, to not put an accurate handle on total fraud or abuse, some of which in the abuse area particularly goes totally undetected.

We have estimated and it has appeared in some GAO reports based on limited programs in our experience in the prosecution of a particular area that anywhere from 1 to 10 percent of particular program expenditures, depending on whether it is a procurement program or a benefit program, can be found to be lost through fraud or waste or gross abuse, but that is not a basis from which to extrapolate to an overall figure of 10 percent or 1 percent or 5 percent of any total number, no matter how appealing that might be to demonstrate the true seriousness of the fraud problem.

As I told the Senate Budget Committee and a House Subcommittee our view on the extent of fraud and abuse referred only to federal programs intensely investigated after detection and referral to Justice. The HEW Inspector General has attempted to quantify roughly fraud and abuse in his Annual Reports of 1978 and 1979; various public and private organizations have ventured their own estimates; but realistically, all must admit we really do not know.

We do know that, where there has been a concentrated audit or investigation, significant fraud, abuse, waste and mismanagement have been uncovered. These experiences generated both support for the Inspector General Act and the high priority the Attorney General and the Administration have given to enforcement in this area.

Some effort is being made to develop concrete figures on the extent of fraud in federal programs through the Department's White Collar Crime Referral Form. The form, executed at the time an agency referral is made to the Department of Justice, will summarize the pertinent data relating to that referral, and it will be stored in a computer for fraud estimates in dollar terms. But this data will not cover abuse, waste and mismanagement.

There is no doubt that the Congress, the Executive's and the public's perceptions of the extent of fraud and abuse in federal expenditures have escalated in recent years. Yet, our investigations of HUD, DOD and, lately, GSA programs have confirmed that the problem has been with us for a very long time. In addition, increased complexity in federal spending programs, attempts to reduce administrative red tape, and dispersed administration of federal funds all may contribute to an increased potential for fraud and abuse. Until recently there was no increase in enforcement and administrative pressures to balance this trend.

In order to combat these problems the Executive Group will need the attention and support of everyone. We have seen in the past the implementation of some federal programs without sufficient thought being given to enforcement controls or to design which will minimize vulnerability to fraud, abuse and waste. For example, both the Medicaid and Food Stamp programs were implemented without sufficient regulatory controls and only in the past few years, after significant losses occurred have Congress and the Executive addressed realistically the issue of fraud and abuse.

With our new awareness, this issue must be addressed prior to the enactment and implementation of federal programs rather than years later in response to scandals. Through the Executive Group such an approach is possible.

I defer to the experience and expertise of OMB and OPM on the extent of mismanagement in federal programs, but I suggest that there is limited usefulness in efforts to make a single total estimate of annual dollar cost except as it serves to focus attention on the problem.

(3) WHAT ARE THE ADMINISTRATION'S GOALS FOR THE REDUCTION OF FRAUD AND WASTE?

The Administration's goals for the reduction of fraud and waste are substantial. Three years ago, although we were all aware of some sizeable losses in a variety of HEW programs, we did not have the organizational mechanism to identify the full scope of these losses and, more importantly, to devise strategies for their reduction. In 1972, we all were aware of significant fraud in HUD's programs, however, without the support of the HUD Inspector General, we would not have achieved over 900 convictions and made marked improvements in the administration of HUD. Without the interest and efforts of the Inspector General in Agriculture, recent improvements in the administration of the Food Stamp Program would not have been possible.

Without attempting to set artificial dollar goals for the reduction of losses due to fraud and waste, the Department of Justice has tried to develop and implement a range of effective programs to address and help others to address this problem in an integrated and coordinated manner.

On February 8, 1979, Attorney General Bell signed an order creating the Economic Crime Enforcement Units. I anticipate that, over the next two years, we will create approximately 30 Units in the larger United States Attorneys' Offices, containing up to 150 Department specialists with a like number or more of Assistant United States Attorneys.

These Units will direct and encourage Federal, State and local agencies to orient their resources toward the efficient detection and pursuit of fraud and abuse. The Units will identify and articulate national and local priorities for each Federal Judicial District and direct focus prosecution and investigation resources to those priorities.

We have made significant strides in the training of auditors and investigators. In May 1978, we began offering a one-day course taught by experienced prosecutors to all department and agency investigative personnel, and over 800 persons have participated. During the last two months, the Criminal Division and the Association of Government Auditors have offered one-day training programs in various parts of the United States for federal auditors. The Department of Treasury Federal Law Enforcement Training Center, with Criminal Division support, is now offering a two-week fraud training course for agency investigators. The course was first conducted in December and is now being offered every month. A subcommittee of the Executive Group is working with the Training Center staff to insure that the course design is responsive to the needs of the Inspectors General.

Joint training of prosecutors and investigators in the area of government fraud has also increased in the last several years. The FBI regularly brings agents to Quantico, Virginia, for training in specific types of government fraud investigations, and joint United States Attorney-FBI White Collar Crime training conferences have been held twice a year.

Further, the Department of Justice has reoriented its resources to respond to this problem. Judge Webster has shifted FBI personnel to the investigation of fraud in government programs, often in conjunction with Inspector General staff, and has instituted new post-reporting procedures which require the investigator to identify significant program weaknesses. Through the communication of these findings to the departments and agencies, program improvements can be expected. The Criminal Division has just completed a major reorganization placing greater emphasis on the two primary White Collar Crime Sections—Fraud and Public Integrity, and sixteen United States Attorneys have specialized units to focus on white collar crime and government fraud matters.

Within the Fraud Section, we are developing individual prosecutive expertise in particular programs. Staffing of HUD Task Force investigations over the last several years developed an experienced group of prosecutors who continue to work with HUD on program improvements. We expect the GSA Task Force to provide similar expertise of benefit to that agency.

Within the last year, we have instituted two programs to enable us to quantify the extent of fraud and abuse. First, through the computerized White Collar Crime Referral Form mentioned earlier, all investigations will be recorded and correlated with the United States Attorneys' Docket and Reporting System.

Second, the FBI has, through the use of its computers, reclassified investigation matters by particular agencies and programs. Through both systems, the Department of Justice will be better able to track cases and identify trends, allowing the Federal criminal system to deal more effectively with fraud.

(4) HOW DO THE COSTS OF ACHIEVING REDUCTIONS OF FRAUD AND WASTE COMPARE WITH THE BENEFITS?

As a general matter we have not utilized a precise cost-benefit analysis to evaluate the effectiveness of the criminal justice system. The value of citizens' lives, property, safety and health is not readily measured in monetary terms. In the area of fraud, abuse, waste and mismanagement, however, the limited evidence available provides a powerful argument for cost-effectiveness. But as a general matter, the cost-benefit test shows pure ratio from 2-1 to more than 10-1 for every dollar spent to dollars saved.

The Special Prosecutor for Nursing Homes, Health and Social Services in the State of New York has achieved 53 convictions and restitution of over \$4.7 million on an annual budget of \$7 million, but, through his efforts, improvements in the administration of the New York Medicaid Program have been achieved representing unmeasurable total savings. The HEW Inspector General in his last Annual Report has targeted cross savings of \$1.3 billion for 1979 and \$2.1 billion for 1980. Through Project Integrity, a computer screen of physician and pharmacist health care claims, over \$4 million in Medicaid overpayments have been identified and changes in state programs predicated on the Project's findings promise a potential annual savings of \$6.8 million.

At a cost of \$2 million, over \$4.1 million has been identified for potential restitution as a direct result of Project Match, a computer comparison of Federal and state employment rolls and state AFDC rolls. The HEW Office of Education has created a program for application verification in 1978-79 which is saving over \$300 million.

The National District Attorney's Association Economic Crime Project, established in 1973 to aid district attorneys in the prevention, detection, investigation and prosecution of economic crime, has achieved over 6,969 convictions, with court fines and restitution exceeding \$12.7 million and voluntary restitution and settlements of over \$32 million. The Economic Crime Project expenditures since its inception amount to approximately \$5.7 million.

In the educational benefits area, it is reported that an expenditure of \$30 million in verifying GI Bill payments has detected \$395 million in overpayments.

The dollar return in terms of fines, restitution, and civil recovery, in addition to the long-term savings in program loss from which we benefit each year, indicates that our present expenditures in enforcement do not come close to the point of diminishing returns.

The second level of cost-benefit analysis is even more dramatic than the figures I have provided. The loss through fraud, waste and mismanagement cannot be measured only in pecuniary terms. They effect the quality of our food and safety of our homes and of our lives. If the Government's performance in the management of its programs and in the detection of fraud is less than adequate, we risk widespread public cynicism and the conviction that the entire economic and political system lacks integrity. The public's perception of runaway federal programs subverts the foundations of our institutions and drains our national will. If the Government is not responsive to this concern, public support for these programs will cease with dramatic social consequences.

(6) HOW CAN WE OVERCOME THE VIEW SUGGESTED BY SOME THAT IT IS DIFFICULT TO ACHIEVE REDUCTIONS IN WASTE AND IMPROVEMENTS IN PRODUCTIVITY IN THE FEDERAL GOVERNMENT BECAUSE SUCH GAINS MAY LEAD TO REDUCTIONS IN AN AGENCY'S BUDGET, AND HOW CAN WE PROVIDE INCENTIVES FOR IMPROVEMENTS?

First I do not accede to the myth or argument that the efficient administration of a strong program of high integrity will be rejected because of adverse budget consequences. 99 percent of the federal employees are decent, honest, hard working people who abhor waste or fraud as much as any taxpayer. They suffer the most from scandal or abuse and given the education, the tools and the opportunity they will endeavor with all their ability to perform exceedingly well. I am confident that savings from the reduction of waste and fraud will not reduce program budgets but enhance them. If a Department or Agency demonstrates to the Congress that a very high percent of the benefits of its program actually flows to the

recipients to solve or meet the perceived needs, Congress will respond positively in dollar terms to increase not cut the program. Provided, as is true in critical areas, there continues to be a legitimate need.

While deferring to the Office of Management and Budget to respond specifically to this question, I would offer a few additional observations. The question does touch directly on an important obstacle to any solution to the problems of fraud, abuse, waste and mismanagement. The obstacle is one of attitude: the failure of program directors, managers and designers and their departments to be sufficiently concerned with losses through mismanagement and waste, to religiously enhance safeguards, checks and integrity systems, and the failure of the Congress to design programs originally with sufficient controls to eliminate losses through fraud, abuse and waste. I believe that these attitudes are changing dramatically and mechanisms have been put in place recently to stimulate this change.

The independence of the Inspectors General from the administration of their agencies' programs under their mandate to promote economy and efficiency in those programs insures that, for the first time, we will receive unbiased assessments of agency effectiveness. The HEW Inspector General's performance over the past two years in the most difficult and complicated of all departments is evidence that that high expectation is realistic.

One of my expectations for Civil Service Reform is that we will see new standards for career management performance, expertise and incentives in government which will emphasize the effective management of programs rather than their unmonitored growth.

The Presidential Management Improvement Council directed by OMB and OPM, will provide the continuous direction and support needed to insure that the Government as a whole moves constructively in dealing with the problems of waste and mismanagement in federal programs.

The exploration of imaginative incentives in addition to traditional prohibitions, is being seriously considered by state agencies, governmental units and congressional committees and staffs.

[The White House, Washington]

MEMORANDUM FOR THE ATTORNEY GENERAL; THE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET; THE DIRECTOR, OFFICE OF PERSONNEL MANAGEMENT

SUBJECT: Improving Management and Combating Fraud and Waste in Federal Programs

Since the beginning of my Administration I have emphasized the high priority I place on improving the operations of Federal agencies. Implementation of the Civil Service Reform Act and the Inspector General Act provides an opportunity to strengthen our efforts to improve agency management practices and manage the resources of the government well, free of waste, fraud, and inefficiency. I want to seize this opportunity.

In recent months I have asked each of you to assume specific responsibilities which include:

The Director of OMB providing direction and assistance in implementing the Inspector General legislation and overseeing governmentwide efforts to combat fraud, waste, and mismanagement in program operations;

The Attorney General assuring that the activities of Inspectors General and similar officers are coordinated with other investigative and prosecutorial activities; and

The Director of OPM working with the Attorney General and the Secretary of the Treasury to improve the training of investigative and audit staffs throughout the Executive Branch.

I believe we should now launch a management improvement program that builds on Civil Service reform and on our other ongoing efforts to improve both management practices and program performance across the entire government. At the same time we should pursue a coordinated anti-fraud and waste campaign that focuses on implementing the Inspector General program. While these two efforts should be organizationally separate, each of you should assure that they complement each other.

EXECUTIVE GROUP TO COMBAT FRAUD AND WASTE IN GOVERNMENT

I am establishing an Executive Group to Combat Fraud and Waste in Government to assure effectiveness implementation of the Inspector General Act of 1978 and other efforts to combat fraud and waste in programs of the Federal Government. The Deputy Attorney General shall serve as Chairman and the Deputy

Director of the Office of Management and Budget shall serve as Vice Chairman of the Executive Group. Its membership will consist of the statutory Inspectors General, the Deputy Director of the Office of Personnel Management, and the Special Counsel of the Merit Systems Protection Board, and representatives of the Federal Bureau of Investigation, Internal Revenue Service, and Postal Inspection Service. Other officials should be brought in to work with the Executive Group as appropriate. The Department of Justice and the Office of Management and Budget should provide the necessary staff support.

The responsibilities and functions of the Executive Group include:

Providing leadership, and formulation policy and operational guidance, to the Inspectors General and other officers of the Executive Branch in combating fraud and waste in government programs, including the development and promotion of:

Programs that prevent and detect fraud and waste in Federal programs;

Procedures to assure that investigations by the Inspectors General and similar officials are coordinated with investigative and prosecutorial activities by law enforcement agencies; and

Improvements in training for audit and investigative personnel.

Promoting coordinated allocation and direction of audit and investigative resources.

Studying and seeking to resolve extraordinary problems or issues relating to fraud and waste which are beyond the capacity or authority of the individual executive departments or agencies.

Developing recommendations for needed legislation and other actions that can be taken to reduce fraud and waste in the Federal Government.

PRESIDENTIAL MANAGEMENT IMPROVEMENT COUNCIL

I am establishing a Presidential Management Improvement Council to support efforts to improve Federal management and program performance and to further the government-wide management improvements envisioned in the Civil Service Reform Act of 1978. The Council shall be co-chaired by the Directors of the Office of Management and Budget and the Office of Personnel Management. Its membership will consist of representatives from Federal agencies, as appropriate, and the private sector, including corporate executive officers and foundation and academic leaders. The Office of Management and Budget and the Office of Personnel Management should provide the necessary staff support for the Council.

The identification of critical management problems for consideration by the Council shall be the joint responsibility of the Office of Management and Budget and the Office of Personnel Management, in consultation with departments and agencies. In addition, I will ask the Council to undertake specific management improvement projects from time to time.

I expect the Council to work cooperatively with the Comptroller General, agency Inspectors General, and senior program management and administrative officials in the departments and agencies. The Council should keep me informed of its activities and bring significant problem areas to my attention.

JIMMY CARTER.

Senator BENTSEN. Mr. Campbell, I am trying to get you back to your press conference. We will start with you and limit our questions to you and then let you leave.

Mr. CAMPBELL. Thank you very much, sir.

Senator BENTSEN. Mr. Campbell, I was reading a quote from the General Accounting Office investigation that sums up the way a good number of our citizens feel about productivity in the Federal Government. It's a quote about the Government's main incentive awards program which is designed to award employees showing notable productivity gains. This is the quote, and it frankly disturbs me:

The continued use of this program in its present form in some agencies will have a more negative impact than no program.

Now, if that's what they're saying, at least in some instances, it seems to reduce productivity. What has the OPM done to improve the incentive awards program to end the kind of abuses that have been pointed out by the General Accounting Office?

Mr. CAMPBELL. We are in the process of cooperating with the departments and agencies, moving the incentives program into a position where it will reinforce the merit pay system in the Civil Service Reform Act and the bonus system for senior executives. Since the rewards in those areas will be based on a carefully designed performance appraisal system, we believe that the use of incentives to reinforce the new directions that have been required by the Civil Service Reform Act will give those programs a new meaning. And we are in the process of preparing guidance to the departments and agencies which we believe will accomplish that.

Senator BENTSEN. I hope so. I just introduced a bill, S. 1252, the Federal Government Productivity Data Act of 1979. That requires the Bureau of Labor Statistics to gather and publish data on productivity agency by agency. It does away with the veto that agency directors now exercise on release of such data. It would give us for the first time a broad, uniform means of comparing productivity between agencies. This data are now lumped into some 28 broad categories. I'd like to see this data used in considering Federal agency budget requests, as discussed by Mr. Staats.

Why have the Congress and the public generally been denied this productivity information? Has that information been available to OMB? Has it been available to your group, but not to someone outside the executive branch? Why is that?

Mr. CAMPBELL. The information has only been available this year to OMB and we hope to expand that. The difficulty has been that the information being provided is not prepared with adequate care, and the Comptroller General spoke to that point when he discussed the difficulties with the accuracy of the data.

One of the reasons is that the data have not been used effectively in the policymaking process. I do not speak generally for the administration, because it is not a matter that has been yet determined policy-wise, but as far as I am personally concerned, I believe that we should first turn to improving the quality of that data, and we are working with BLS to do that.

Second, once we become satisfied with that quality, the data should be used in making not only budgetary decisions, but personnel decisions as well. It is my hope that we can move expeditiously to do that. I think that we do have support from the other central agencies of the Federal Government to move in that direction.

Senator BENTSEN. When I was in business, I remember that there was an old axiom that you can expect what you inspect, and I think that's true of Government agencies. I believe this kind of report on productivity, agency by agency, would be very helpful, and a stimulant to those particular agencies who do not have satisfactory increases in productivity.

Many Government managers really do not want to see a reduction in their number of personnel, because much of their compensation in the past has been based on grade; the more people, the more responsibility and supposedly the higher the grade. But now the General Accounting Office in its testimony has talked about building in incentive rewards and bonuses if they can really cut down on cost and increase productivity. Have you looked into that kind of a proposal?

Mr. CAMPBELL. Yes, we are. The Civil Service Reform Act and the establishing of the Senior Executive Service and merit pay for the upper-middle managers requires the use of bonuses and merit pay for those who perform well. In order to do that, we must have a system of measuring performance, and in working with the departments and agencies in which we are now intensively involved, it is necessary to develop ways to measure the performance of organizational units as well as of individuals. I believe that there will come out of that an emphasis on performance in productivity which has never existed before in the Federal Government.

I would also make the point, because I believe in the long-run it may be even more important than some of the incentives and bonuses that we have, that no longer is Senior Executive Service rank dependent upon position in the top management positions, but rather the rank goes to the person. The past incentive to protect that position as a way of protecting grade and status will no longer be the basic motivation. With that fundamental change, I believe that we will see less attachment to maintaining the activities and the employees responsible to a particular position, and much greater emphasis on demonstrating ability, thereby getting more responsible assignments, based on the ability to do the job with fewer resources.

Senator BENTSEN. The employees themselves are obviously your most valuable asset, and that's widely recognized.

Yesterday we had testimony by Mr. Arai of the Japanese Productivity Center, about how much more Japanese industry is doing than U.S. industry in training employees. I'd like to relate that back to the Federal Government. What are we doing to bolster training programs to increase the efficiency of employees, and what results do you see? Have you been able to measure the results of such training programs?

Mr. CAMPBELL. We have evaluated our training efforts and I can provide to the committee some specific results from those studies, and will do so if you would like. I can comment, in general, that in areas where we do specific training in relation to specific skills, be it typing or be it other kinds of technical skills, then we clearly demonstrate a return from the investment in that training, which is very great.

We have less success in evaluating managerial and executive training. But again, with the establishment of the Senior Executive Service we are in the midst of putting in place an extensive executive development program. We have been working with OMB on this and have tentative commitments for adequate resources to do that job. I believe that when we add this improved managerial training to what we already do and do relatively well in more technical specific skill areas, that there will be a substantial improvement in the Federal training and executive development efforts.

Senator BENTSEN. I have read a General Accounting Office report about one Government employee who, when he was fired, attacked his supervisor with a baseball bat and beat him up. But then he was reinstated with 8 months' back pay. I saw one very able football coach lose his job because of a loss of temper last year, and I haven't seen him being reinstated. Now, how can this happen in the public sector? Are those types of situations going to be eliminated under the Civil Service Reform Act?

Mr. CAMPBELL. I can't respond positively to that question in terms of detail, since we don't really know. We do believe that the changes and the kind of evidence required in removing employees for inadequate performance will make it easier to deal with inadequacy in performance as well as with bad conduct. I would, however, make the point that the decisions in these matters are made by quasi-independent judicial officers. I don't know if that's true in the specific instance you cite, but I do know of one case where we were, in fact, ordered by the Court to reinstate the person despite the fact that physical violence had occurred.

I hope that the management side of the Federal Government would do a better job of preparing its cases and preparing its evidence so that we will not have that kind of thing recurring. It has been a problem. We addressed it as completely as we could in the Civil Service Reform Act, and now it really depends upon implementation. And it's too early to report results.

Senator BENTSEN. Thank you very much.

Senator PROXMIRE. Mr. Chairman, I understand that you want to accommodate Mr. Campbell in this round, because he has to leave, but I do want to say at this point the great admiration and respect I have for the marvelous job that Elmer Staats has done in this respect. Elmer Staats is not finishing, but in a year or two he will be leaving, because I understand he cannot be reappointed. He has been a great, great force for efficiency and competence in our Government, and he has gotten little credit for it. Too little, at least, in my view. And here's one area where he's been way out in front and he hasn't gotten the support of the Congress, he hasn't gotten the support of the President, and he hasn't gotten the support of those of us who should have given that support. And I am delighted that apparently the chairman has now moved in and is intending to do what he can, which is plenty, to focus attention on this area of efficiency and competency and measuring productivity.

Now, let me get to Mr. Campbell. I might say that I know Elmer Staats would want to have his name associated with Tom Morris and Dwight Ink and Bernard Rosen and others who assisted him so ably in this respect. It is just marvelous work, and we haven't taken advantage of it.

Mr. Campbell, it seems to me that what we have to do is find a way to get visibility for this effort. I think it's viewed too much as something that's dull and mechanical, the kind of thing that people with green eyeshades do, and we don't pay enough attention to it.

Now, we have a President of the United States in Jimmy Carter who has been given a lot of bum raps, but I think almost everybody agrees that he is very concerned about efficiency. He is known as an engineer, and some people criticize him as to that, but I think it's to his credit. I can't understand for the life of me why President Carter doesn't get up on that pulpit and call attention to this thing over and over again. It would seem to me that the President of the United States should cite good performance by particular departments where productivity has improved, and should give a brickbat to those departments where productivity has not improved rapidly enough. Why, it could be tremendously helpful.

I think we should have done more in the Congress, but the President of the United States is one who has the attention of the public. If

you in your office could persuade the President to take an interest in this, an active, vigorous, up-front interest, it would greatly help him, and it would help the Federal Government, and help give these people who are trying to improve their productivity and performance the kind of rewards that exceed any kind of monetary award.

Mr. CAMPBELL. May I just respond briefly, Senator, because I think President Carter, at least in the time I've been "President-watching," has given more attention to the management issues than any of them.

Senator PROXMIRE. Let me just interrupt to say that I agree with that but what I don't see is calling attention to productivity improvement as such, and I think this term is so important—this idea, this concept—it could become one that would achieve a real national consciousness.

The President could say, for example, that the Social Security Administration has done an outstanding job and why and so forth. Some other agencies have done a poor job.

Mr. CAMPBELL. I certainly hear your suggestion and will indeed pass it along.

I will make the point that we have on a good number of occasions placed material on management issues in public statements by the President. We all are aware of the amount of effort that the President gave to passing the Civil Service Reform Act. I must say that it is sometimes difficult to attract media attention to those parts of his statements, but we will continue to try. And certainly, the appointment of the President's Management Improvement Council is directed to that. It's an effort to give this effort visibility.

We hope that once we are able to announce the appointees to that Council, their very stature will bring attention to it. We hope that through using that Council to make regular reports to the President, including reports on good things going on and why there are needs for changes, we will also bring some public attention to this.

I am absolutely convinced of the correctness of what you say, which means that we must continue to push for visibility. I must say that I have frequently been disappointed by the fact that our efforts thus far have not produced greater results than they have.

Senator PROXMIRE. I think you're right that Congress has not been as active as it should. Perhaps we're more responsible than the President, because we do review budgets very visibly and we can get more involved in the details, because each of us is chairman of an Appropriations Subcommittee or an authorizing committee, and has that particular responsibility. I think it would be very helpful if you would call to the attention of every chairman of every authorizing committee, every chairman of every Appropriations Subcommittee in the House and Senate the productivity performance of the agencies under his jurisdiction.

Now, we do some of this because I've been working with Elmer Staats on measuring productivity when agencies come before my Appropriations Subcommittee and the Banking Committee, but I must say we haven't been nearly as vigorous as we should have been. I am going to do what I can to try to persuade my colleagues in the Senate to be more aware of this, and I think these hearings will be helpful.

But I would think that if you could write to the chairmen of these committees and call their attention to what the record shows, it might be very, very helpful and help focus attention on their productivity performance when they do come before the committees, as you say so well in your prepared statement. If they have a good productivity performance, they tend to be penalized, because they haven't used all of the money that was appropriated, and they say, "Why do you come up and ask for these funds? You didn't use them. We'll cut your budget next time."

There's a lack of understanding on the part of many of us with respect to that. A communication from you would be very helpful in this respect, because you're the principal person in charge of this.

Mr. CAMPBELL. When we have sufficient confidence in our data, when we know it does reflect reality, we certainly will move to work with Congress in making that data available for their decisionmaking process.

Senator PROXMIRE. I am glad you say that. You say sufficient confidence in our data, and that is a question. It is always a question. In productivity you make mistakes, and you could be unfair, because there are some agencies that could take advantage of technology who have a spectacular improvement, and then there are others who cannot. But I think that this can easily be taken into consideration and can be understood by Members of Congress, and I think that that would be helpful.

One more point. When Elmer Staats brought this to our attention 10 years or so ago, or more, I was deeply impressed by an interesting case that he cited in Joliet, Ill., where an Army proving ground, had been given \$500,000 with which to apply new technology, and they found some improvements. Some of the machines they introduced paid for themselves in 60 days and others in 41 days. In the course of this they found that the \$500,000 was repaid in 6 months.

Now, the point is this: In the private sector this would happen automatically, because the salesman could show you how you could make your money back in 6 months. Of course you would make the investment. But in the public sector, if you put that machine in, the budget goes down, and the number of personnel under your jurisdiction is less. So, we have to find ways of encouraging this kind of investment, this kind of technology improvement, and it's not easy to do. But I think if some of these spectacular success stories are called to our attention, it will help us achieve that.

Mr. CAMPBELL. I agree with you completely, Senator, and I think the personnel problem side is to some degree handled by the save grade-save pay statutes, which means that you can at least deal with the difficulty over the short-term and then deal with the decline in number of employees needed by attrition.

I would make one further point: The Defense Department has an experimental investment program in which it is appropriated money by Congress and can take advantage of targets of opportunity. That program has been very successful, and I would invite the attention of the committee to it. It demonstrates how—by giving management freedom to use money which isn't appropriated for specific purposes—agencies can use it very effectively in undertaking what often are commonsense kinds of small investments to improve productivity. That program is, I believe, one that we should look to as a possible model to follow with other departments and agencies.

Senator BENTSEN. Thank you very much, Mr. Campbell.

Mr. CAMPBELL. Thank you very much, Mr. Chairman.

I do apologize for having to leave.

Senator BENTSEN. Mr. Staats, I certainly echo what my distinguished friend Senator Proxmire says about your service. It has been long and impressive, and we are very appreciative of it. When we talk about finding cases of fraud and abuse and waste in the Federal Government, it gets a lot of attention. We are talking about the problem of getting attention.

For increases in productivity it's not so dramatic; but when you talk about fraud with the taxpayer's money, that's always front page.

I think in fairness to Federal employees, I don't know if there's any way to measure it, but I would not be surprised if the percentage of fraud in the private sector wasn't comparable. But it is not as dramatic and it doesn't get the kind of coverage.

Do you have any kind of a feel for the productivity there?

Mr. STAATS. I am sure that what you say is correct. If you look at the data just on shoplifting by employees of retail outlets, for instance, I don't know if there's any way you can add it up and make some comparative analyses. I would make this additional point: My feeling would be that a lot of people will take advantage of opportunities for fraud where Government is concerned because they feel that the Government owes them something, that they are entitled to something which they have not been able to get in any other way.

What has happened over the last 10 to 15 years is a dramatic growth in the amount of cash payments that go out to contractors, to State and local governments, and, of course, to individuals. If you add these three groups together you now have around 60 to 65 percent of the Federal budget that flows out in the form of payments.

We cite in my prepared statement some of the types of programs which are particularly susceptible to fraud and abuse and error such as the \$18 billion spent annually in veterans' benefits. In HEW you take three of the big programs, \$109 billion in welfare payments, \$10.5 billion in grants to States from medicaid, \$3 billion for student aid. And, of course, we have in the Government about \$80 billion of procurements, most of which is in the Defense Department.

But the point is that there has been this dramatic growth in the form of expenditures that go out in the form of cash outlays.

Now, accompanying that phenomenon has been the fact that so much of this is done by computer now. We are now utilizing some 12,000 computers in the Federal Government.

The first computer the Federal Government acquired was in 1951. In a relatively short period of time we have had a dramatic change in the methods of operation. These computers are highly susceptible to manipulation and fraud and I would hope that this group that Mr. Civiletti is chairing would give high priority to this area.

We did a recent report to Congress which indicates very low priority is now being given to the potentiality of fraud and abuse through computers.

Senator BENTSEN. Along that line you are talking about new initiatives and the investigation of additional agencies. One would assume then that you would start on those agencies that were the most susceptible because of payments or computerization or whatever. Can you tell us what agencies you are now going to investigate?

Mr. STAATS. Well, based on calls received on our toll-free hotline, we know where the largest percentage of allegations are made. One of the reasons that we instituted that hotline was to try to get some leads as to the areas which were most susceptible or potentially most susceptible to fraud. And not to our surprise, these are focusing on HEW, the Labor Department and the Defense Department and the Veterans' Administration; those four areas. And that, I think, has some significance.

The other is that on the studies that we're going to be making of the 23 agencies, I think we'll get some leads with respect to what agencies ought to have highest priority attention.

Senator BENTSEN. You are talking about 23?

Mr. STAATS. Twenty-three agencies. Going back and asking them to identify all of the fraud cases that they've had in a 2½ year period. Those reports that we've had as of now indicate 154,000 fraud cases. What we want to do until we get that data complete is to try and analyze agency by agency which agencies have done the best job of followup and disposition of those cases and which agencies have not. We will, of course, make that available to this group that Mr. Civiletti heads up.

Separately on our own we are attempting to go into several agencies and look at their particular problems. I mentioned the four agencies, The Naval Material Command, Community Services Administration, the comprehensive training and employment program and the Small Business Administration. We are taking these as case studies, going into them in depth and finding out what went wrong and why it happened and what controls might have been instituted to have prevented the fraud from taking place in the first place.

Senator BENTSEN. Mr. Civiletti, you had a number there that requires some explanation; if you're referring to convictions of Government employees at HUD, you cited 900 convictions. Not just indictments, as I understood it, but convictions at HUD since 1973 or 1974. There are about 16,000 full-time employees at HUD. If that 900 refers to HUD employees, you're talking about approximately 7 percent of their employees. Is that correct? Is it to be understood that way?

Mr. CIVILETTI. No, the 900 convictions referred to there would include all convictions since 1972.

Senator BENTSEN. Are those Government employees?

Mr. CIVILETTI. No, sir. It would include people who defrauded HUD or had participated with them or anything else.

Senator BENTSEN. I would have to believe that that extends beyond the Government employees.

Mr. CIVILETTI. Although, as I recall in HUD, they had something like 14 regional directors and 10 out of the 14 were convicted. [Laughter.]

Senator BENTSEN. Do you want to say that again?

Mr. CIVILETTI. My recollection, if we are correct, is saying that these 900 convictions are total convictions and not just employees, and I am certain that the vast bulk of those convictions are nonemployees, so that the percentage of employee convictions is a small percentage in reference to the total population. But I did observe that in the HUD scandals in our investigations and successive prosecutions that my best recollection, and I may not have the exact figures correct,

but of the 14 regional directors of HUD, 10 of those 14 were prosecuted and convicted.

Senator BENTSEN. Approximately 80 percent of Government employees are non-Federal. They work for State and local governments.

Is the Federal Government attempting to induce and improve productivity of that group? Is there any exchange of information?

Mr. STAATS. It's an area that needs a lot of development. There are some limited programs today, one of the most successful of which is provided directly by State and local governments—its called Public Technology, Inc. It's located here in Washington, and is financed by the seven principal organizations of State and local governments. It has had some grants under the Intergovernmental Personnel Act and the National Science Foundation. But that is a small effort relative to what the need is.

The Federal Government has a very substantial interest in State and local government productivity because of the size of the grants that are made by the Federal Government, representing currently about 25 percent of all the outlays of State and local governments come from the Federal Government.

So I think the Federal Government has more than a general interest for productivity improvement in the State and local government area.

The Office of Personnel Management does not at this time have a clear charge to work in that area. We have recommended strongly that they be given that responsibility. But as of today, they do not have the responsibility for leadership in that area.

We think it would be logical since they have responsibility for administering the Intergovernmental Personnel Act, which was set up to assist the State and local governments in improving their personnel management.

Just why they have not been given this responsibility is a question that we have not been able to get the answer to.

Senator BENTSEN. Mr. Civiletti, just one more question. Do you see organized crime involved in Federal corruption? And if so, how can it be eliminated?

Mr. CIVILETTI. Not substantially, as a general proposition, and not at all pervasive; and we don't find evidence of organized crime throughout the investigations at all.

Organized crime still concentrates and specializes in its traditional operations of gambling and prostitution and extortion, and monopolization of a particular service area within a region or community, or infiltration of certain service unions; and to a certain extent has broadened and gone beyond that in the last 10 years, in a more sophisticated way, to the takeover of once-, or twice-, or three-times-removed financial institutions, and lending organizations, and things of that kind.

And to the extent that organized crime has done that with companies, service groups, or institutions, and those, in turn, do business with the Government, then, of course, organized crime, we have found from time to time—organized crime can surface in that indirect way.

We find organized crime closely touching, or partially tangential to investigations of public corruption and corruption of public officials, because organized crime, for its protection, for its security, is not infrequently in the kickback or bribery kind of operation with State and local officials particularly.

Senator BENTSEN. Do you have any feel for the amounts?

Mr. CIVILETTI. No.

In the investigations we have done though that form the basis in particular programs, particular activities, in those activities anywhere from 1 to 10 percent of the program has been jeopardized or lost—it would be not insignificant.

Senator BENTSEN. Senator Proxmire.

Senator PROXMIRE. Mr. Civiletti, I'm delighted that you cleared up that frequently referred to statement which you made some time ago—March 15, I guess—before the Senate Budget Committee, in which you said that fraud and so forth was from 1 to 10 percent of the budget, and that was interpreted, first, as applying to half the budget, and therefore from \$2.5 to \$25 billion. Later, I've seen it referred to as \$5 to \$50 billion—in very, very good newspapers, very responsible and competent newspapers, over and over again. It's become part of the general folklore of this country.

People are easily led to believe that the Justice Department has said it. And people say, "How much more is there?"

And you say, "The Justice Department's official estimate is that it ranges in this area."

Now you tell us that it's not in this area at all. You say in certain cases it is from 1 to 10 percent, and you say, furthermore, that you can't extrapolate that. And therefore you deny that you could say that there is \$2.5 billion or \$25 billion or \$50 billion. And you agree with Comptroller General Staats, who says, "We don't know." Is that right?

Mr. CIVILETTI. That's almost 100 percent right, with just that one correction. I didn't say it the first time, as I have so carefully pointed out here, with precision. So I don't deny that. I deny the conclusions that people have loosely reached in what you've said—is a kind of a folklore fashion or a mythological fashion.

You're absolutely correct, we do not know, with any reasonable accuracy, and our approximations are just educated guesswork.

Senator PROXMIRE. Well, is there any way we can make an educated, responsible guess?

Mr. CIVILETTI. As a general matter?

Senator PROXMIRE. Or do you think it would be useless to try?

Mr. CIVILETTI. I cannot.

Senator PROXMIRE. Obviously, if we knew there was a certain amount, we could root it out. So do you have any notion about that?

Mr. STAATS. I made the same point. Senator.

If we knew, we'd be able to eliminate it or minimize it, but we don't know.

And I don't think that there's really very much value in public estimation or speculation as to how much there is or is not.

It seems to us that the principal point is to recognize that any amount of fraud is a matter of concern, and we ought to be sure that we have in place the controls that will minimize it.

I don't think any of us are naive enough to believe that we would ever eliminate it 100 percent. But I do believe that we ought to satisfy ourselves that we have the controls and in the agencies, and throughout the Government, to identify and prevent it.

It's the prevention, I think, that is the important thing here.

Senator PROXMIRE. Let me get to those controls.

First, with you, Mr. Civiletti.

I'm not at all satisfied that the Inspector General system you've set up will work.

Now, you've given some excellent examples and some of the best reassurance that I've seen that it is working to some extent, but it just doesn't seem to me to make any sense, in view of the experience I had with Ernie Fitzgerald and others, that a whistle blower of any kind, even if you give him the title of Inspector General, is going to be able to do it. If he is responsible to that agency, his job is to make the agency look bad. The better job he does finding fraud and waste and incompetence, the worse the agency looks, and the worse the President looks.

It would seem to me that as long as you have an Inspector General who is responsible to the agency—which is what we have now—it's going to be very hard for them to really dig into the big cases, particularly cases involving competence of the head of the agency, and expect them to succeed.

Mr. CIVILETTI. There's a lot of logic to your point and to your argument. I don't agree with it entirely, because there is an overlay now. The dependence on the agency or department head is not complete. There are rudiments of independence. We've tried to strengthen those by this executive group, by an assembly of all of them together, concentrating in the career and professional way on the duties and their jobs.

The Congress in the act intended to establish this independence, and it did it in part by the reporting system required and the analysis system required. I'm very hopeful about the Inspectors General; I think it's a marvelous step forward.

Senator PROXMIRE. It may be some progress. I agree it's better than nothing, but why not have an Inspector General who would report to the GAO? The GAO is independent of the executive branch. The GAO, it would seem to me, is in a position where they can be much more objective if they reveal fraud. The President cannot fire the GAO.

Mr. CIVILETTI. But it has a certain relationship with another branch of the Government. It's not totally independent either. [Laughter.]

Senator PROXMIRE. Well, I know, but I'm sure we make all kinds of mistakes in the Congress, but we don't have the opportunity for fraud. We don't have the opportunity to steal and to make quite the kind of mistakes of you in the executive branch. We don't have 2 million people under our command, and only \$1 billion of that \$500 billion budget is congressional.

Mr. CIVILETTI. No, I don't think that you could have the departments and agencies run—expected to run effectively and efficiently—without fraud and abuse, by having the GAO control that auditing and inspection function.

I don't mean to suggest that the Justice Department or any other law enforcement agency is giving up its independent responsibility, on the basis of any report from GAO, the hotline, or anybody else, to investigate abuse or alleged misconduct in any agency or department, regardless of whether they have an Inspector General or don't have an Inspector General.

We do not refer matters exclusively to the Inspector General and just sit on our hands. If reliable information comes to us, or information which can prove to be reliable comes to us, about a particular

agency or department, we may consult with the Inspector General as to what's happening or we may not. And the FBI may investigate it independently.

In fact, one of the difficult areas of judgment and evaluation and study, and finally decision, is at what threshold point does the Inspector General's investigation really get turned over to the FBI or to the Department of Justice? And when it does, what manner and form and way shall the Inspector General's investigators or officers continue to participate in the case?

There are arguments for immediate referral. There are other arguments for developing the case, to a certain extent, longer in the agency or department. And there's a very strong argument for a kind of an attitude of "Take me along" as the case proceeds through intensive investigation, grand jury, and prosecution.

Senator PROXMIRE. I understand Navy paymasters file their reports with the GAO—why not have the Inspector's General file their reports with the GAO?

Mr. CIVILETTI. I just think it's inconsistent with trying to run the executive branch in an efficient and sound way to have that important arm of the departments and agencies run by an organization over which you have absolutely no control.

Senator PROXMIRE. That's exactly why it would be useful.

Mr. CIVILETTI. That's not the scheme of the Government. That's not the separation of powers. That's not the three branches of government.

Senator PROXMIRE. As I say, you've got a precedent here, with Navy paymasters. I see the problem.

Mr. CIVILETTI. I'm not familiar with Navy paymasters.

Senator PROXMIRE. Maybe we should have a situation in which the Inspector General works for the GAO, but I'm not suggesting that.

I'm suggesting he work for the department—they're subject to the discipline of the department; they report to the head of the agency, but their reports are filed also with the GAO.

Mr. CIVILETTI. I'm saying that I don't put as much magic in GAO as you do. I think it's a fine organization, a fine agency. I think they've done marvelous work. I think they're a great watchdog.

I think that Mr. Staats has had an outstanding career, even before GAO, and done more for GAO, as you indicated, than any single individual that I can think of.

But I don't think it's—

Senator PROXMIRE. How about handing over reports to responsible Members of Congress?

For example, I was chairman of a Subcommittee on Foreign Aid a few years ago I tried to get a report from their Inspector General and wasn't able to get it.

Mr. CIVILETTI. Well, I think that's a matter that depends upon the nature and circumstances of what the report is that you want. And it's not unlike the Department of Justice.

Many of our reports—information is made available to the Congress, in one manner or another, to congressional committees—depending on the timing and the depth of the information required, and whether or not we have a pending prosecution or an active investigation, and the use which is intended to be put to the report.

And it seems to me that those should be roughly the same kind of judgments and evaluations that you'd make with an Inspector General's Office.

Senator PROXMIRE. Mr. Staats, do you think you could modify the responsibility of the Inspector General?

Mr. STAATS. I think I could make a contribution here, Senator Proxmire.

The problems that we have had here in the past have been mostly with the Inspectors General in the Department of Defense.

Up until recently, the rule within the Department was that those reports were not available to us, except by explicit approval of the Secretaries in the three services.

As a result of the efforts that we have made with the Department, we now have that turned around so that those reports are available unless specifically prohibited by the Secretary. To date, we have not had any such prohibition.

Senator PROXMIRE. How long have you had that?

Mr. STAATS. Only within about 6 months, but this had been a continuing problem.

Now, with respect to the Inspectors General of the departments, where the Inspector General legislation applies—

Senator PROXMIRE. I hesitate to interrupt you, but doesn't that suggest that there'll be considerable pressure on the Inspector General to take it a little easy?

After all, if he has a report that is a reflection on the competence or honesty of the head of the agency, the head of the agency is going to have to reject it. Doesn't that limit his ability to hit hard?

Mr. STAATS. I don't really think so. I guess, in the first instance, in asking for those reports; we're not concerned with how to dispose of an individual situation involving, say, ethics or conflict of interest, or matters of that type.

We're interested in any Inspector General's report which has something to do with the economy, efficiency, effectiveness of the operation that they're reviewing.

Part of the difficulty is—here, in the Defense Department—that there has been no clear definition of what is the role of the auditor and the evaluator, as against the Inspector General.

And we've found that in many, many cases the Inspectors General were dealing with substantive issues. They're dealing with management, organizational questions, but still they were not available to us until very recently.

Now, with respect to the departments where the new legislation applies, plus DOE and HEW, we do have access to those reports. We've had access before that legislation went into effect, and as far as we know—

Senator PROXMIRE. Is that enough as far as you're concerned?

Mr. STAATS. They're not filed with us automatically, but any time we go into any particular area, one of the first things we look for is copies of the internal reports made by the internal auditor or the Inspector General.

Senator PROXMIRE. My subcommittee of this Joint Economic Committee has exposed evidence of possible fraud in several Navy shipbuilding claims cases. I've tried to get the Justice Department to act on them.

In one case involving Lockheed, the FBI conducted an extensive investigation, and then Justice investigated for about 2 years. As far as I know, that case is still languishing, and it's typical.

Can you explain why Justice failed to complete the Lockheed case and why other shipbuilding fraud cases are languishing in Virginia, Mississippi, and Connecticut?

Mr. CIVILETTI. No, I can't explain—based on the assumption that they're languishing—

Senator PROXMIRE. It's been a long time.

Mr. CIVILETTI [continuing]. Because I don't know if they are or not. I do know that we have active investigation of any number of Navy shipbuilding cases in at least four spots, or four places, to my knowledge. I do know that we indicted a case.

Senator PROXMIRE. The Lockheed case is 5 years old. The other ones are about 4 years old.

Mr. CIVILETTI. Five years from what though? What do you take the 5 years from? The contract time? From first referral?

Senator PROXMIRE. From the time Justice started it.

Mr. CIVILETTI. The first referral to the Justice Department? I'm surprised at that.

Senator PROXMIRE. Would you submit to the committee a report on pending fraud cases involving Navy shipbuilders and prepare a similar report covering other defense contractors?

Mr. CIVILETTI. I'll submit a report and status report, without jeopardizing those investigations which are still active on the shipbuilding cases.

[The following information was subsequently supplied for the record:]

THE DEPUTY ATTORNEY GENERAL,
Washington, D.C., June 26, 1979.

Hon. LLOYD BENTSEN,
Chairman, Joint Economic Committee, Congress of the United States, Washington, D.C.

DEAR MR. CHAIRMAN: During my appearance on June 6, 1979, before the Joint Economic Committee concerning the level of productivity, waste, and fraud in the Federal government, Senator Proxmire requested a status report on all the referrals made to the Justice Department by the Department of the Navy involving shipbuilding contracts.

Four referrals have been received and are currently pending within this Department. I have attached a brief summary of each matter. As all of these cases are still under consideration, I regret that I am unable to further elaborate on the details.

I trust the information provided in the summary will be responsive to Senator Proxmire's request.

Sincerely,

BENJAMIN R. CIVILETTI,
Deputy Attorney General.

Attachment.

BATH IRON WORKS, DISTRICT OF MAINE

This case was referred to Justice by the Department of the Navy in March 1978. Investigation into this matter is pending and involves \$16 million in claims filed by Bath against a commercial owner. If the claim is paid, the Navy will ultimately pay any award through higher charter fees for tankers. The owner has alleged the claims are fraudulent, and the claims, excluding issues of fraud, are currently in arbitration in New York with the decision expected around the end of calendar year 1979. Since January 1979 this matter has been pursued by the Federal Bureau of Investigation (FBI) and the Naval Investigative Service (NIS) under the direction of an attorney in the Criminal Division and an Assistant United States Attorney in the District of Maine. A number of witnesses have been inter-

viewed and Bath Iron Works has been requested to produce pertinent documents. The joint FBI/NIS investigation will be supplemented by the grand jury as appropriate. Naval audit has offered to render assistance in this matter if needed. At a minimum, it will take approximately six months to complete the investigation of this case.

ELECTRIC BOAT, DISTRICT OF CONNECTICUT

This case was referred to the Department of Justice by the Department of the Navy in March 1978. Investigation is pending and involves possible false cost overruns claimed and submitted to the Navy by the Electric Boat Division of General Dynamics in connection with the construction of nuclear powered submarines. This matter is being pursued by four FBI agents, and one NIS agent under the direction of a Criminal Division attorney and an Assistant United States Attorney in the District of Connecticut. Grand jury proceedings commenced in March 1979, and approximately five witnesses have appeared to date. A subpoena has been issued to Electric Boat Company for documents related to the claim, and they are now in the process of producing those documents. Thus far, approximately 25,000 documents have been received. We expect to conclude the grand jury sessions in December 1979.

LOCKHEED SHIPBUILDING AND CONSTRUCTION CO., EASTERN DISTRICT OF VIRGINIA/
DISTRICT OF WASHINGTON

In January 1975, the Department of the Navy referred allegations of fraud involving claims submitted by Lockheed Shipbuilding and Construction Company to the Navy in connection with Lockheed's construction of Navy Destroyers (DE 1052) and landing platform docks. The FBI assigned six agents who continuously investigated this very complex matter through the Spring of 1978. The claims in question exceeded \$160 million.

In January 1978, we concluded that we could not proceed with four of the five allegations considered for prosecution in light of certain factual limitations. A novel prosecutive theory was then considered for the remaining allegation, and since January 1978, our efforts were intensified to develop support for our position. Grand Jury sessions were held in the Spring and Summer of 1978, and the matter was then reviewed in the Fraud Section, Criminal Division in the Fall of 1978. While a final determination in this matter has not been reached at this time, the Criminal Division has substantially completed its investigation. Lockheed has recently submitted a multi-volume report representing their analysis of the case which is presently under review.

NEWPORT NEWS SHIPBUILDING AND DRYDOCK, EASTERN DISTRICT OF VIRGINIA

This case was referred to Justice by the Department of the Navy in March 1978. Investigation into this matter is pending and involves cost overruns claimed on Navy shipbuilding contracts. A grand jury was empaneled in October 1978, and testimony from approximately 50 witnesses has been taken. The grand jury session should conclude in October 1979. Nine items of the claim appear to be fruitful with one being approximately 75 percent of the value of the claim. This is a very complete accounting investigation. Ten agents and four attorneys are presently working full time on this case. (Two Navy attorneys, one Criminal Division attorney, and one Assistant United States Attorney, Eastern District of Virginia.

In addition to the above Attorney commitments of the Criminal Division, an additional senior prosecutor has been assigned to direct and coordinate the three recent referrals (Bath, Electric Boat, and Newport News).

Senator PROXMIRE. I just have a couple of quick questions for Mr. Staats.

And I apologize to the chairman for delaying the committee.

You talked about collecting debts owed the Federal Government.

Wouldn't it be the best procedure, instead of giving those to bill collectors, to just give them to the creditors?

We found in many cases that when a person refuses to pay his debts to the Federal Government, he knows he can get away with it, and his credit isn't hurt. When the credit society or the credit bureau is

notified, then that becomes a black mark on his credit record—he'll be happy to pay.

Mr. STAATS. We agree with you. And under the 1966 Federal Claims Collection Act, the Comptroller General and the Attorney General are responsible for promulgating regulations pertaining to debts owed the Government.

As a result of the work that we've done here, we proposed to the Department of Justice—and they have concurred—that new regulations be issued which provide for the referral of all these past-due debts to the credit network. These regulations have been issued.

At the moment, we are in the process of trying to work out a way in which the credit networks can work together on these cases, because there are a large number of credit networks.

But we agree with you. And with the cooperation of the Justice Department, we think this will make a big contribution.

Senator PROXMIRE. Then you said, on foreign military sales, \$2 to \$3 billion is uncollected.

How long has that been uncollected? And does it look as if we are likely to lose any substantial part of that?

Mr. STAATS. The unrecovered costs we have identified were caused primarily by weaknesses in accounting systems used for costing and billing. Although we have long held that any costs that were not recovered can be subsequently billed, even on sales agreements for which a final billing has been made, Defense, for the most part, has not attempted to collect from foreign governments for underbilling. Instead, they have ignored our recommendations that they bill for these amounts. Some of these costs have not been billed for several years and may not be collectable at all.

We have submitted reports to the Congress on this on many occasions. The Defense Department has made some effort to try and get their systems improved, but there are still very difficult problems, because of the accounting deficiencies identified in our reports.

Senator PROXMIRE. Do we continue to sell to countries that have not paid for their weapons that they've purchased?

Mr. STAATS. Yes, we do.

Senator PROXMIRE. Can you give us the names of any of these countries?

Mr. STAATS. We can. I can't give it to you without checking.

Senator PROXMIRE. Make it available.

Mr. STAATS. Yes.

[The following information was subsequently supplied for the record:]

All countries in the foreign military sales program are affected by Defense's failure to properly cost and bill for arms it sells. Among the larger purchasers are Saudi Arabia, Iran, Germany, and the United Kingdom. These countries, for the most part, have paid amounts billed. For the costs we identified, however they were not billed nor does Defense plan to do so.

Senator PROXMIRE. Now you spoke, Mr. Staats, of achieving an attitudinal change incentive. You spoke about how neither the President nor the Congress has given the kind of—I don't mean this President, but traditionally the President and the Congress—support that we ought to have.

Do you have any notion of what we can do to improve that?

Mr. STAATS. I have two specific thoughts here. In addition to the one which I outlined here, I believe there should be some recognition to a manager who makes a serious effort to improve his operation so that he will not have all of that money recouped.

In effect what now happens is that if you reduce costs this year, reviewers assume you can do even better next year, and cut your budget. I think that this is a matter which has not really received the attention it ought to in the Office of Management and Budget, nor in the agencies.

Now, with respect to the capital investment items that you referred to awhile ago with Mr. Campbell, I'd like to point out that in the 1977 fiscal year, with your help, we were able to get the Defense Department and the Appropriations Committees to authorize a small amount of money for short payoff capital investment money. In 1978, no money was made available.

This year, 1979, \$14 million available out of the total Defense Department budget for that purpose.

Now, that—I would suggest—is too small an amount.

Senator PROXMIRE. What do you think would be a reasonable amount? \$100 million?

Mr. STAATS. I'd be happy to consider that and give you a figure, but certainly \$14 million is a drop in the bucket.

Senator PROXMIRE. I'm sure the Armed Services—and, of course, the chairman is a leading member of that committee—would be interested in that.

Mr. STAATS. I think OMB ought to be asking the agencies to supply the specific proposals that can be included in the budget, which would have this high payoff.

Senator PROXMIRE. Not only the Defense Department, but the other agencies as well.

Mr. STAATS. Oh, yes.

The other point I'd like to make, partly in response to your question goes back to what Alan Campbell was saying awhile ago. I applaud what he's done at the Office of Personnel Management. He has taken some real leadership in improving productivity. But I've also suggested that the existing Productivity Council is not going to do the job. It has no staff; it has no authority; it has no credence outside the Government.

Senator PROXMIRE. The chairman points out they have two staff members.

Mr. STAATS. Until the Congress itself, with the President, enacts legislation to create a focal point, a leadership point, in the Government, I don't think we're going to have an effective program.

I feel badly that the National Center on Productivity and Quality of Working Life was allowed to lapse. We supported that legislation. It was not a perfect instrument; I wouldn't argue that.

When the Center's authorized 3 years were up, we still did not even have appointees to the Center's Advisory Board. I don't think that reflects a very high level of priority and attention on the part of executive branch to the subject.

I believe a Federal program to improve national productivity is needed that includes the following 10 functions:

1. Develop periodic needs assessments to determine the nature and extent of public and private sector productivity problems.

2. Act as a facilitator in bringing together various groups on neutral ground to discuss widespread industry productivity problems.

3. Operate a productivity clearinghouse to provide national and international data and knowledge on various aspects of productivity to all sectors of the economy. In particular, we need to provide private industry with more knowledge as to developments in foreign countries which may have applicability in the United States or which may impact on our competitiveness.

4. Promote a better understanding of all the factors affecting productivity, including human resources, capital, technology, research and development, transformation of knowledge into practical terms, and the importance of productivity to our national economy.

5. Provide for a periodic joint assessment by the Joint Economic Committee of the Congress, the Council of Economic Advisers to the President, and the Federal Reserve Board of the productivity impact of fiscal, monetary tax, and regulatory policies on the private sector.

6. Take the lead in developing improved and acceptable measures of productivity. Our current productivity statistics are weak and do not adequately reflect the role which capital investment, improved technological processes, and innovation can play in improving productivity. The Bureau of Labor Statistics and the National Academy of Sciences have done good work, but more needs to be done.

7. Adopt policies which will stimulate additional investments for research and development by the private sector through tax and other incentives and encourage industry to recognize the importance over the long term for R. & D. rather than focusing on investments which will yield high short-term returns. Extending the investment tax credit specifically to research and development outlays might provide further assistance. Hopefully the domestic policy review of industrial innovation, scheduled to report to the President next year, will result in a new, cooperative approach to industrial innovation.

8. Provide new and better ways for measuring the costs and benefits of both existing and new regulations which can impact on productivity. The Regulatory Analysis Review Group, established by the President to review selected new regulations, is a step forward, but the entire regulatory process needs to be subjected to a rigorous discipline of costs and benefits analysis, particularly those regulations which have been designed to deal with health, safety, and the environment.

9. Continue Federal management-labor cooperative programs for upgrading the skills of the labor force with added emphasis to service trades which now make up 60 percent of the total labor force and which is expected to grow to 75 percent by the end of the century.

10. And, finally, the Federal Government should accelerate its efforts to measure and improve productivity within the Federal Government and take a strong leadership role in assisting State and local governments to reduce their costs through improved productivity. A recent study estimates that 20 to 30 percent of State and local government employment growth between 1967 and 1976 resulted from low productivity. Underscoring the importance of this point is the fact that State and local governments now employ 80 percent of all government employees in the Nation.

Senator PROXMIRE. One final question: It's been suggested to me by a member of the staff that perhaps certificates of merit, signed by the President, for substantial improvement in productivity can be

given to those agencies and committees and individuals. Do you think that would be helpful?

Mr. STAATS. I think that would be helpful.

Senator PROXMIRE. Thank you very much.

Thank you, Mr. Chairman.

Senator BENTSEN. Thank you, Senator.

Mr. Staats, I'm glad to hear you say what you did about the Productivity Council. I pointed out that yesterday to Mr. White.

The statement of the President was that the Productivity Council was indeed the focal point on the question of productivity. But then Mr. White testified that we've got all these support agencies—everyone is concerned and interested.

And I'm sorry that Mr. Campbell isn't here, because he talked about their particular productivity group gaining influence by the stature of the names that are on the Council. That won't do it.

If you look at the stature of the names on the Productivity Council, you've a good part of the Cabinet—but it's everybody's job, and it's nobody's job. It's that kind of a deal—two employees. It frankly is a great disappointment to me thus far.

And we talked about those things that were being done, all those studies, but no specifics were being named.

Let me say that this committee—at least for the next year and a half—is going to be bearing down on this issue and trying to keep it in the forefront, and then trying to see that we stimulate some of the legislative committees to take the initiative on it.

We are very appreciative of having you both here this morning.

Thank you very much.

[Whereupon, at 11:30 a.m., the committee adjourned, subject to the call of the Chair.]

[The following correspondence was subsequently supplied for the record:]

RESPONSE OF HON. ALAN K. CAMPBELL TO AN ADDITIONAL WRITTEN QUESTION
POSED BY SENATOR MCGOVERN

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C., June 6, 1979.

HON. ALAN K. CAMPBELL,
Director, Office of Personnel Management,
1900 E Street, NW.,
Washington, D.C.

DEAR MR. CAMPBELL: Senator McGovern regrets very much that he was unable to be present for your testimony at today's Joint Economic Committee hearing. He has asked me to forward the following question to you:

In your prepared statement you touch on the difficulty of measuring productivity due primarily to the complex nature of bureaucratic, as opposed to industrial, productivity.

My question is threefold:

(a) How do we measure productivity, say of Senate staff, when much of the work involves weighing options, deciding what not to do, and negotiations that produce no tangible end result? How do we measure that?

(b) Do we have any knowledge of how other countries measure their governmental productivity? You didn't mention this in your testimony.

(c) Shouldn't we concentrate, as a matter of policy, on preventing fraud, stealing, and cheating, first, and productivity second, since it is so subjective in nature?

We look forward to your response. Thank you.

Sincerely,

JOHN M. ALBERTINE,
Executive Director.

OFFICE OF PERSONNEL MANAGEMENT,
Washington, D.C., June 28, 1979.

Mr. JOHN M. ALBERTINE,
Executive Director, Joint Economic Committee,
Congress of the United States, Washington, D.C.

DEAR MR. ALBERTINE: Thank you for transmitting Senator McGovern's question to me in your June 6, 1979, letter. I will respond to each part of the question separately.

(a) How do we measure productivity, say of Senate staff, when much of the work involves weighing options, deciding what not to do, and negotiations that produce no tangible end result? How do we measure that?

There are many areas—like the work of Senate staff—which do not readily lend themselves to productivity measures. Along with negotiations, policy and research are realms which seem to resist conventional measurement. While these present state-of-the-art problems, rudimentary measurement if often possible. To begin with, current staffing/competency levels imply that some productivity judgments have already been made—if only implicitly. These judgments can be made more explicit by separating the efficiency and effectiveness components of staff work. In many effectiveness-intensive units, for instance, it is not uncommon to find high-level staff spending a significant proportion of their time on routine activities that could be delegated to less-skilled individuals. Conducting this kind of analysis can make possible a stricter accounting for efficiency-related activities. At the same time, it can focus creative energies on those activities which are most difficult to measure.

(b) Do we have any knowledge of how other countries measure their governmental productivity? You didn't mention this in your testimony. As far as the Bureau of Labor Statistics can determine, no other country has a comprehensive government productivity measurement system. Some countries have made limited efforts at measurement. For example, Canada has attempted to measure the productivity of government hospitals, and Great Britain has done some work with its postal service. But none have developed macro measures like those used in our aggregate measurement system, which has been in operation since 1974.

This system gathers data on employee output per year for Federal agencies with more than 200 employees. Data are aggregated and reported by function (e.g., social services, printing, power). There are currently 28 functions with 2,000 output indicators (e.g., claims adjudicated, books bound, kilowatt hours sold). These cover about 64 percent of the Federal civilian workforce, or some 1.8 million employees in 51 agencies and 319 separate organizations.

I would only add this: we feel that much can be gained from information exchanges with other nations and do intend to initiate international dialogue.

(c) Shouldn't we concentrate, as a matter of policy, on preventing fraud, stealing, and cheating, first, and productivity second, since it is so subjective in nature?

I think that we have to concentrate on both problems simultaneously. Let me begin by stressing that much of the productivity measurement task concerns efficiency—which is usually straightforward. While complex analysis may be required, measures derived typically are concrete and objective. Effectiveness, on the other hand, is less clear-cut. It may often be necessary to rely on subjective criteria; however, these should be linked with more objective indices wherever possible.

In my testimony, I indicated that effectiveness in the public sector is problematic because there is no market mechanism to assign values to government products and services. But the difficulty of determining effectiveness should not obscure the importance of effectiveness, or of efforts to measure it. If anything, public demands for improved government performance and responsiveness are increasing. Underlying this pressure for government *accountability* is a feeling in many quarters that the public is being "cheated" by non-productive Federal agencies. In this sense, improving productivity and preventing fraud, stealing, and cheating are analogous objectives which warrant equal attention.

Please let me know if you would like further elaboration on any of these points.

Sincerely yours,

ALAN K. CAMPBELL,
Director.

RESPONSE OF BENJAMIN R. CIVILETTI TO ADDITIONAL WRITTEN QUESTIONS
POSED BY SENATOR MCGOVERN

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C., June 6, 1979.

MR. BENJAMIN R. CIVILETTI,
Deputy Attorney General, Department of Justice,
Washington, D.C.

DEAR MR. CIVILETTI: Senator McGovern regrets very much that he was unable to be present for your testimony at today's Joint Economic Committee hearing. He has asked me to forward the following questions to you:

1. Is it your experience that the bulk of the fraud and abuse in Federal programs can be found at the deliverer's end, or the recipient's end?

It seems to me, in the case of food stamps and vendor fraud, housing and mortgage fraud, and Medicaid and insurance fraud, that perhaps we need to concentrate as much or more on the private sector deliverers of services, as opposed to program beneficiaries.

2. Can we fairly say some programs, or departments, or both, are more free of fraud and abuse than others? Would you care to give some examples?

3. To a certain extent, Mr. Civiletti, have the crime fighters in the Federal bureaucracies been victimized by a too sensationalistic press? Or are the problems as severe as they're made out to be?

Where, in your opinion, are our worst trouble spots right at this point in time?

We look forward to your response. Thank you.

Sincerely,

JOHN M. ALBERTINE,
Executive Director.

THE DEPUTY ATTORNEY GENERAL,
Washington, D.C., July 6, 1979.

HON. GEORGE MCGOVERN,
Joint Economic Committee,
Congress of the United States,
Washington, D.C.

DEAR SENATOR MCGOVERN: Attached please find my response to the questions forwarded to me by John M. Albertine, Executive Director, in connection with the June 6, 1979, hearing of the Joint Economic Committee on the level of productivity, waste, and fraud in the Federal Government.

I trust this information will be responsive to your inquiry.

Very truly yours,

BENJAMIN R. CIVILETTI,
Deputy Attorney General.

Attachment.

1. Is it your experience that the bulk of the fraud and abuse in Federal programs can be found at the deliverer's end or the recipient's end?

It seems to me, in the case of food stamps and vendor frauds, housing and mortgage fraud, and Medicaid and insurance fraud, that perhaps we need to concentrate as much or more on the private sector deliverers of services, as opposed to program beneficiaries.

We do not know the precise extent and character of fraud and abuse in Federal programs. As we advised the Joint Economic Committee, concentrated audits and investigations have uncovered significant fraud, abuse, waste and mismanagement in a variety of programs. By including in the question the term abuse, which by our definition is non-criminal, you cover large problem areas which are beyond the ability of the criminal process to solve.

Investigations have discovered sizeable fraud in a number of programs involving both beneficiaries and deliverers of Federal program benefits, including the programs cited in your question. Our prosecutive and investigative resources are limited. As a result, it is the practice of the Criminal Division and the United States Attorney to focus investigation and prosecution efforts on the "deliverer of service as opposed to program beneficiaries". This has been our practice in HUD, health care and food stamp programs in particular. In the food stamp program, an agreement not to prosecute beneficiaries and to rely on administrative processes instead has eliminated over 7,000 de minimus matters. This has allowed our investigators and prosecutors to focus on the more egregious and sizeable frauds on that particular program.

However, the criminal process and its resultant deterrent impact should not wholly be abandoned in the beneficiary fraud area. For that reason, we have proceeded criminally in small groups of food stamp and other beneficiary cases to achieve a deterrent effect on other program participants. For that purpose we have also supported HEW's Project Match for AFDC beneficiary fraud and a special Unemployment Insurance beneficiary fraud project.

Our present prosecutive priorities are consistent with these observations; however, the dollar impact of beneficiary fraud and abuse is sizeable. Serious attention is now being given to possible solutions, including provision for a civil money penalty to be imposed through the administrative process. This area is one of the major challenges for the new Inspectors General.

2. Can we fairly say some programs, or departments or both, are more free of fraud and abuse than others? Would you care to give some examples?

We are very hesitant to quantify fraud and abuse or to identify particularly vulnerable departments or agencies. Our investigations have detected some degree of fraud, abuse, waste and mismanagement in practically every program.

We have observed the impact of program design on the incidence of fraud. Fraud tends to be present most frequently in programs with a large number of participants, dispersed administration, minimum audits, insufficient enforcement resources, and reliance on private institutions. These conditions have existed in the Food Stamp, CETA, HUD, Unemployment Insurance, GI Bill, SBA 8(a), Medicare, Medicaid, and Federal Insured Student Loan programs, among others. Significant problems also exist in Federal procurements, particularly those of relatively small size with minimum controls.

Each new Inspector General is regularly examining the vulnerability of his or her department's or agency's programs. A committee within the Executive Group is charged with refining the vulnerability analysis tool. In this regard, it is significant to note that 2 years ago a GSA official testified before a House Subcommittee that fraud and abuse in GSA's procurement operations was not significant.

3. To a certain extent, Mr. Civiletti, have the crime fighters in the Federal bureaucracies been victimized by a too sensationalistic press? Or are the problems as severe as they are made out to be?

Where in your opinion, are our worst trouble spots right at this point in time?

As we advised the Joint Economic Committee, 99% of all Federal employees are decent, honest, hardworking people who abhor waste or fraud as much as any taxpayer. We also believe that most Federal monies are spent as the Congress and the taxpayers intended. However, this is not to diminish the concern over the significant fraud and waste that our investigations have uncovered. Media attention to this problem has served a valuable purpose—it has attracted the public's, the Congress and the Executives' attention to a problem that, upon examination, is not really new. Everyone's attention has been secured, but the solutions are not short-term. To the extent the media has convinced the public and the Congress that the criminal investigation system alone is the answer, that expectation is unrealistic.

As we advised the Senate Budget Committee last March, it is only through the integration and support of various disciplines and remedies that we will be able to effectively tackle the problems. It will take the support of all Federal employees as well as auditors and investigators, and the support of the program designers who must give serious consideration to the integrity of their programs. Lastly, all the deterrent and control mechanisms, civil and criminal remedies and department and agency administrative action, must function in a coordinated and supportive manner. Through the Executive Group, we hope to maximize the possibilities for this integrated approach.

Our investigation and prosecution experience has identified a number of programs with significant fraud and abuse problems, e.g., Food Stamp, CETA, HUD, Unemployment Insurance, GI Bill, SBA 8(a), Medicare, Medicaid, Federal Insured Student Loan, disaster, Energy and GSA programs. The success of our investigation and prosecution efforts in these areas is due in large part to the cooperation and support of the victim federal agency. We anticipate the new Inspectors General will place other programs under closer audit and investigation scrutiny. In the area of procurement, our GSA experiences have generated a special interest in the Government's procurement programs particularly in Defense. Through closer working relationships and increased emphasis in that Department, significant improvements are anticipated.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., June 19, 1979.

B-163762

Hon. LLOYD BENTSEN,
Chairman, Joint Economic Committee, Congress of the United States, Washington,
D.C.

DEAR MR. CHAIRMAN: In my testimony before the Joint Economic Committee on June 6, I mentioned that one of the projects we have in progress is the comparison of common Government functions with similar functions in the private sector. I am writing to describe more fully why this effort is an extremely valuable one.

Federal agencies all perform certain common support functions, such as procurement, personnel, and ADP. Managers of these areas are under pressure to improve service and reduce costs, yet there exists no means for exchanging "best techniques." Evaluation of common functions on an agency-by-agency basis can yield significant productivity improvement because of the benefit of transferring the more effective methods and because of the availability of greater evidence to support a legal or policy change where a common problem is identified.

In looking at comparable functions in the private sector, we seek to gain the same benefit of improving productivity by incorporating commercial practices and methods which we find to be more efficient and effective than those used in the public sector.

An example of this approach is illustrated by our recent report on debt collection practices. As a result of this report, a set of revised debt collection standards has been issued by the Attorney General and myself, which, when implemented in the Federal Government, has the potential of collecting billions in defaulted debts. This will be achieved primarily through the Government's adoption of commercial debt collection practices, such as reporting loans and defaulted debts to credit bureaus.

Other productivity improvement projects we have in progress using the common function approach are in the areas of legal services, aircraft maintenance, building maintenance, day care centers, and medical services. Since this approach has proven to be a most fruitful one, we shall continue identifying functions that merit comparison.

I am pleased that national productivity is increasingly becoming a concern to members of Congress and others who are in a position to push this issue as one that must be forcefully addressed. I strongly agree with Senator Proxmire's comment that "productivity improvement" is a concept which should become part of the national consciousness.

Sincerely yours,

ELMER B. STAATS,
Comptroller General of the United States.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., July 11, 1979.

B-171019

Hon. LLOYD BENTSEN,
Chairman, Joint Economic Committee, Congress of the United States, Washington,
D.C.

DEAR CHAIRMAN BENTSEN: This letter is in response to your June 6, 1979, request for additional details on the General Accounting Office review which identified 154,000 incidents of alleged fraud at 22 Federal agencies.

As shown by the recent General Services Administration scandal, fraud is a serious problem requiring decisive and effective Federal action. As a means of responding to the problem, I announced an across-the-board attack on fraud in Federal programs by GAO in the fall of 1978 and created a Special Task Force for the Prevention of Fraud to spear-head this effort. The Task Force is composed of three organizational units:

- (1) a group which operates a nationwide citizens hotline,
- (2) a group doing vulnerability assessments or risk profiles of selected agencies and programs, and
- (3) a group charged with making an overview of fraud and other illegal activities and their causes in Federal agencies.

The overview unit is responsible for the area referred to in your request. This unit was established based on the premise that, in order to do something about fraud and other illegal activities, we need to know how large the problem is and where it is most likely occurring. Therefore, the overview effort will focus on 20 major Federal departments and agencies including Defense. (See Enclosure I.)

We intend to identify known cases of fraud or other illegal activities and trace a sample of them back into the agency management and financial systems. Our primary objective is to determine what management and internal control systems failed thus allowing fraud to occur. Based on our analyses, we expect to be able to get a better feel for (1) the kind of fraud that is occurring and its cost, (2) the resources needed to combat it, (3) whether trends indicate that the weaknesses allowing fraud to occur show up in the delivery systems, the enabling legislation, or the management systems controls, and (4) the ways that agencies handle fraud cases and the actions needed to prevent fraud from occurring including what they are doing to detect it.

We believe that management and internal controls are the key elements in effective prevention of fraud. Therefore, we will look at traditional concepts of internal controls to determine whether, in light of the apparent large amount of fraud occurring, these concepts need revision or strengthening and whether new controls need to be established.

An early problem that we ran into in designing the overview approach was that a standard definition of the term fraud is not used by all Federal departments and agencies. Some include a wide range of crimes under the fraud category while others are extremely selective and include only one or two types of illegal activities. In order to collect data from all departments and agencies on a consistent basis, the Task Force has adopted the following definition.

"Fraud and other illegal activity means any willful or conscious wrongdoing that adversely affects the Government's interests. It includes acts of dishonesty which contribute to a loss or injury to the Government. The following are some examples of fraud or other unlawful activity: falsification of documents, such as time cards or purchase orders; charging personal expenses to Government contracts; diversion of Government property or funds for unauthorized uses; submission of false claims, such as invoices for services not performed or materials not delivered; intentional mischarging or misallocation of contract costs; deceit by suppression of the truth; regulatory or statutory violations, such as bribery, theft of Government property, graft, conflict of interest, and gratuities and conspiracy to engage in or use the above devices."

The Task Force is collecting data on fraud and other illegal activity cases initiated by the selected departments and agencies between October 1, 1976 and March 31, 1979. Use of this time period will permit us to generalize about current activities, programs, procedures and controls and should not place an unreasonable data compilation burden on the departments and agencies covered by the review. The latter point is significant in view of a recent General Accounting Office report ("Federal Agencies Can, And Should, Do More To Combat Fraud In Government Programs," GGD-78-62) finding that Federal agencies have not established management information systems on fraud.

Lists of cases are currently being obtained from each agency. A data collection instrument has been designed to collect specific information on a standardized basis for statistically selected cases. This information will show the type of fraud or other illegal activity, who is committing it, the Federal programs susceptible to it, and the estimated dollar amount involved. The data on each instrument will be computerized to permit retrieval of selected bits of information. Using this approach, we will be able to separate fraud from other illegal activity categories and address each category on an agency by agency as well as on a government-wide basis.

The 154,000 incidents referred to on June 6, 1979, represented the total actual and alleged cases identified by several agencies or the period covered by our sample. Some of the figures represent estimates because of the data collection problems mentioned above. Our experience to date has been that these estimates age generally high. In addition, we are finding that not all cases included in the lists provided by agencies fall within the limits of our definition. Therefore, the final case total of fraud and other illegal activities will probably range between 130,000 and 154,000.

We are now in the process of analyzing and tracking selected cases and will be in a better position in a few weeks to discuss with your staff the progress of this effort.

With respect to your request for information concerning Mr. Civiletti's comment that 10 or 14 regional HUD Directors has been convicted of crimes, Mr.

James Graham, of Mr. Civiletti's Office, is following up and will contact you directly. We hope that this arrangement will be satisfactory to you.

Sincerely yours,

ELMER B. STAATS,
Comptroller General of the United States;

Enclosure.

ENCLOSURE I

FEDERAL DEPARTMENTS AND AGENCIES REVIEWED IN FRAUD OVERVIEW EFFORT¹

Community Services Administration	Department of Transportation
Department of Commerce	Department of Agriculture
Department of Defense (excluding Air Force)	Environmental Protection Agency
Department of Energy	General Services Administration
Department of Health, Education and Welfare	Postal Service
Social Security Administration	National Science Foundation
Department of Labor	Treasury Department (Customs only)
Department of Housing and Urban Development	Veterans Administration
Department of Interior	Law Enforcement Assistance Administration
	Small Business Administration
	Department of Justice

¹ On June 6, 1979, State Department and Agency for International Development were included in the scope of the job but have since been dropped.

U.S. DEPARTMENT OF JUSTICE,
ASSISTANT ATTORNEY GENERAL,
CRIMINAL DIVISION,
Washington, D.C., August 30, 1979.

HON. LLOYD BENTSEN,
*Chairman, Joint Economic Committee,
Congress of the United States,
Washington, D.C.*

DEAR MR. CHAIRMAN: Reference is made to the hearing held on June 6, 1979, by the Joint Economic Committee on the productivity, waste, and fraud in the Federal Government.

Mr. Civiletti has asked that we clarify a statement which he made during his testimony before the Committee concerning the number of convictions secured against employees of the Department of Housing and Urban Development (HUD), particularly the number of convictions involving Directors of HUD Insuring and Area Offices. In his statement, Mr. Civiletti referred to these employees as Directors of Regional HUD Offices.

Since October 1972, eleven (11) Insuring and Area Office Directors have been indicted. Nine (9) of the eleven (11) were convicted and two (2) were acquitted. The HUD offices involved were located in Jacksonville, Florida; Coral Gables, Florida; Philadelphia, Pennsylvania; Cincinnati, Ohio; Tampa, Florida; Hempstead, New York; Wilmington, Delaware; Boston, Massachusetts; Cleveland, Ohio; Charleston, West Virginia; and Shreveport, Louisiana. A total of sixty-nine (69) other HUD employees have also been convicted. The positions held by these employees included Deputy Directors, Underwriters, Appraisers, Realty Specialists, Mortgage Credit Specialists, Construction Specialists, Inspectors and Administrative Clerks.

We trust that this information will clarify any questions the Committee may have as a result of Mr. Civiletti's testimony.

Sincerely,

JOHN C. KEENEY,
*Acting Assistant Attorney General,
Criminal Division.*

... of the
... ..
... ..

... ..
... ..

... ..
... ..

... ..
... ..

... ..
... ..

... ..
... ..

... ..
... ..

... ..
... ..

... ..
... ..

... ..
... ..

... ..
... ..

... ..
... ..

... ..
... ..

... ..
... ..

... ..
... ..

... ..
... ..

... ..
... ..

... ..
... ..

