Senate Subcommittee on Oversight of Government Management, the Federal Workforce and the District of Columbia and House Subcommittee on Civil Service and Agency Organization

April 8, 2003

Prepared Testimony on behalf of the National Commission on the Public Service

Paul A. Volcker, Chairman

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Chairwoman Davis, Congressman Davis, Chairman Voinovich, Senator Durbin and Members of your subcommittees, thank you for inviting the National Commission on the Public Service to testify at this hearing on

offering solutions and delivering results to the human capital challenge. Commission Chairman Paul A. Volcker and the Commission Members appreciate this Subcommittee's interest in their findings and recommendations I particularly want to convey the Commission's gratification for the extraordinary level of interest in proposals to give the American people, including the federal workforce itself, a government that is capable to meeting its 21st Century responsibilities.

You have the Commission report, Urgent Business for America: Revitalizing the Federal Government for the 21st Century, and I ask that it be included in the committee's record. This testimony will outline the major recommendations made by the commission and the reasoning behind them. I will also comment on how the legislative proposals recently introduced by members of the subcommittee relate to the Commissions findings. In response to the Subcommittees' request for information on the overall status of the federal workforce, I note that the Report discusses in detail the problems, and opportunities, which were the basis of the Commission's work.

The Commission. The Volcker Commission came together on the basis of shared concern about the low level of public trust in government and about the ability of government to meet its critical 21st century responsibilities. The Commissioners who agreed to take on this task are from all political persuasions and both major political parties.
Each of them has a wealth of public service experience – collectively, they have served in every presidential administration beginning with President Harry Truman. They have been elected to the House of Representatives and the U.S. Senate; they have run the Federal Reserve, the Departments of Defense, Treasury, Health, Education and Welfare, and Health and Human Services. They have run the Office of Management and Budget, the General Accounting Office, VISTA, the Office of Presidential Personnel, and have served our country in the Central Intelligence Agency, as Deputy Secretary of State, in the Foreign Service and as White House Chief of Staff. Importantly, they have experience at the state and local levels, leading efforts for economic renewal and development. And this does not include their private sector achievements.

This group first gathered in the wake of 9/11 – convinced more than ever that major reform was critical to our nation's very survival. They were also encouraged by the opportunity presented by the surge in public support for government and those who do its work.

Setting the Agenda. In announcing the creation of the Commission in February of 2002, former Federal Reserve Board Chairman Paul A. Volcker said the Commission's goal was to make recommendations for

the reform and renewal of the public service.

Thus the Commissioners began their work a year ago by examining the challenges confronting federal employees – and the difficulties in attracting and retaining the skilled, knowledgeable and experienced federal workforce demanded by our 21st Century government. Soon, though, they came to the conclusion that today's federal workforce must have a government that is designed to meet today's critical missions. They did not start with organizational reform because they thought it was more important than the problems facing the federal workforce -- they were convinced that to be fully effective, federal workforce reforms must take place within a modernized government.

The Organization of Government. As the Commission began its work it confronted a persistent set of problems: the public's trust in government has been declining for many years; the data showed a strong correlation between the level of trust and the perception of government performance; and surveys indicated that federal workers are frustrated in their efforts to get the job done and have difficulty seeing how their efforts contribute to the government's critical missions.

Many examples of the need for mission clarity are described in the Commission report. One problem discussed in the Report was brought to focus through an investigation conducted by this Senate Subcommittee into federal food safety programs. It took the attacks of 9/11 for us to take heed of the warnings of the Hart-Rudman Commission that "redundancy and overlap between organizations, as well as greatly diffused lines of authority, responsibility and accountability" were undermining our national security.

The Commission's vision for the organization of government begins with a reorganization of government agencies into a limited number of mission-centered departments, each of which would be composed of individual operating agencies sharing the common mission. Managers chosen for their leadership ability would head the operating agencies and each agency structure and operating system would be designed to fit the particular requirements of its mission.

Recognizing that this task will be both difficult and take many years, the Commission asks Congress to legislate a procedure under which the President, within Congressional guidelines, can propose government reorganization plans for expedited consideration. The Commission viewed this as a collaborative process, within a legislated framework, which would include the merit principles of government employment.

Some of the benefits which can result from reorganization were described by Paul Light, Director of the Center for Public Service at the Brookings Institution and Senior Advisor to the Volcker Commission, in testimony to the House Government Reform Committee on April 3, 2003:

1. Reorganization can give greater attention to a priority such as homeland security or food safety.

2. Reorganization can reduce overlap and duplication among widespread programs, thereby increasing accountability and efficiency.

3. Reorganization can create a platform for a new and/or rapidly expanding governmental activity.

4. Reorganization can force greater cooperation among large, quasi-independent agencies such as the coast Guard and Federal Aviation Administration.

5. Reorganization can create greater transparency in the delivery of pubic goods and services to and on behalf of the public.

6. Reorganization improve employee satisfaction and performance.

The Commission urged Congress, too, to reorganize its own committees and subcommittees around today's mission responsibilities.

Leadership for Government. The former cabinet members in the group gave particularly strong testimony to the need to significantly reduce the number of political employees. They believe, based on their own experience, that strengthening the working relationship between top political leaders and career executives enhances morale as well as performance.

Adequate, ongoing, consistently financed training was noted as important to developing and keeping the skilled leadership to run the mission based agencies envisioned by the Commission's proposal.

To improve advancement and career opportunities for both managers and those with the technical skills that modern government must have, the Commission recommended creating an Executive Management Corps and a Professional and Technical Corps within the SES.

The commission focused considerable attention on the pay of government's leaders for two reasons: First, there is a demonstrable critical challenge to effective governance when the leadership of

government is significantly underpaid. Second, executive level pay caps are currently a barrier to pay reform, including pay for performance, for the entire federal workforce. The Commission's recommendations on the issue of pay are outlined below.

Operational Effectiveness in Government. As noted above, the Commission recommends that more flexible personnel management systems be developed by the operating agencies to meet their individual needs. Concurrently, they recommended that the existing classification system and the general schedule be terminated. As the Director of the Office of Personnel Management so clearly articulated in her White Paper on federal pay modernization, they were designed for a workforce that no longer exists. The Commission recommended that a "broad-band" system be adopted as the government's default system. In the alternative, an agency would adopt a system which best supported its own mission.

Two additional areas addressed by the Commission bear on the issue of operational flexibility: First, is the importance of increased and careful oversight, by Congress and responsible executive branch leadership, to assure that the new system and personnel flexibilities stay on track. Concern is sometimes expressed that those in charge will abuse a system with flexibility. Careful and ongoing oversight, including statutory assurance of merit principles of government employment, can ease concerns and prevent that from occurring.

Second, and related, is the importance of ongoing training. Managers and executives who receive appropriate training throughout their careers are much more certain to be good managers and leaders. In fact the Commission believed that adequate and consistently funded training for all federal employees was of great importance. Training is certainly an area where penny wise is pound-foolish.

Competitive sourcing is an issue of ongoing concern and the Commission set out standards under which it believed it should operate. These note that government contracting can assist government meet short-term needs and acquire difficult to find skills. The process itself can save money and enhance performance, whether the contract is awarded within or without. Concurrently, it should not used for the purpose of reducing the federal workforce, nor operate in a manner which seems unfair and undermines employee moral. Not incidentally, the Commission called for a new era in labor management relations and cited several cooperative arrangements at the federal, state and local level that might be used as models.

Setting Federal Pay

The Commissioners developed three overarching principles that they believed should guide pay decisions:

1. Government pay must reflect current market conditions if government is to attract and retain the workforce it needs to perform its responsibilities.

2. The relevant "market" for most of the federal workforce should be comparable jobs and abilities in the general workforce. The relevant "market" for government's senior leadership should be positions demanding comparable responsibility and capabilities in the non-profit workforce.

3. Pay should be tied to performance.

Studies by the Congressional Budget Office, the Office of Personnel Management and private organizations show that federal government pay disparity with the private sector is not uniform across all government positions. Although the recently released OPM 2002 Survey of Federal Employees indicates that 64% of federal civilian employees are "satisfied" with their pay, 34% said they are considering leaving the federal service, and only half of that group is leaving to retire. Other problems related to pay are quite clear: agencies have to be given special pay authority to attract workers with specialized skills; pay compression has resulted in nearly 70% of the SES receiving the same pay; federal judges – whose appointments are for a lifetime – are resigning in growing numbers, with many citing continuing loss of buying power as the reason.

For the majority of federal workers, the private, for-profit sector was identified as the appropriate market on which pay should be based. The Commission recommended that Congress establish policies that permit agencies to determine the specific relevant market for their employees and to adjust their compensation to its exigencies.

The Commission suggested a different compensation standard for senior government positions, such as federal judgeships, executives and members of Congress. There, they looked toward comparable positions in the private non-profit sector as a guide. Associate Justice Stephen Breyer suggested this standard to the Commission when he testified in July of 2002. The Report includes a comparison of executive pay for several categories of non-profit entities. These included universities as well as think tanks, labor unions, public interest groups and foundations of relatively significant size. In every case, the compensation of the leadership of these non-profit institutions was notably higher than that of the senior leadership of the federal

government.

Chief Justice William Rehnquist and Associate Justice Breyer took the unusual step of offering public testimony at the Commission's hearings last year. They, and leaders of the federal judiciary across the board, are deeply concerned about the effect of federal judicial pay stagnation on the administration of justice. They noted that between 1969 and 1999, real pay for federal trial court and appellate court judges declined by about 25%. During the same period of time, the real pay of the average American worker increased by 12.4%. From 1994 to 2000, every category of U.S. workers gained relative to inflation other than federal judges and Members of Congress. The gain in national average wages in this period was approximately 14%, while the decline for Members of Congress and Federal Judges was nearly 10%.

Another area where pay has been effectively capped is the Senior Executive Service. As a result of SES pay being tied to Executive Level III pay, and the Executive Level pay effectively capped by Congressional pay, we have reached the point now where 70% of the SES earns the same compensation. This situation is unfair, demoralizing, and
severely limits the ability to reward performance.

Congress began the work of easing the cap on federal pay in 1999 when it raised the President's salary from $200,000 to $400,000 (P.L. 106-58). The Commission recommends that Congress immediately increases the pay of these other "capped" senior government officials, including federal judges and Members of Congress themselves. Should Congress not want to give itself this level of increase, the Commission asked it to de-couple its own pay from that of federal executives and judges. But I will repeat for the record the Commissioner's statement that: "Few democracies in the world expect so much from their national legislators for so little in compensation."

Pay for Performance

On the issue of performance, the Commission's report repeatedly stresses the important role the Commissioners believe performance should play in the awarding of pay. The experience of the Senior Executive Service illustrates how the existing systems can have the opposite effect. The SES was established in 1978 with a rewards and incentive system where compensation would be closely tied to performance. Those who performed at the highest levels were supposed to get bonuses and merit awards equal to a substantial portion of their annual pay. Unfortunately, the reward system has been inadequately funded and today, the pay cap has resulted in 70% of the SES receiving

the identical pay.

Witnesses at the Commission hearings referred to the existing federal rewards system as “peanut butter.” This is the name federal employees have given to the practice of spreading the funds available for performance rewards broadly across the workforce to make up for lagging base pay.

In addition to inadequate funding of awards, the pay cap and the peanut butter syndrome, a fourth barrier to utilizing existing performance incentives is the fact that like the residents of Lake Wobegon, everyone working for the federal government performs above average. In fact, the performance rating for most of the federal workforce is in the superior category. Of the 700,000 employees who were rated in 2001 using a pass/fail system, 93% passed and just .06% failed. The rest were not rated. Of the 800,000 federal employees who were rated that year using a five-point system, 43% were rated as “outstanding,” 28% as “exceeds fully successful,” 18% as “fully successful” and just 0.55% as either “minimally successful” or “unacceptable.” (Paul C. Light, The Troubled State of the Federal Public Service, Washington: Brookings Institution, June 27, 2002)

Although the task of establishing performance award systems may seem daunting, if one begins with a clear articulation of the mission of the agency, it becomes much simpler and non-subjective to establish viable performance measures for the employees in that agency. The proposal to begin on a full-scale pay for performance system with the SES may be a way to get this process started and simultaneously allay concerns.

In recommending adoption of pay systems which reward excellence in performance the Commission, led by Chairman Paul Volcker, again stress the importance of oversight by both the responsible political leadership in the executive branch and by the Congress to make sure the systems are implemented fairly and pursuant to the government’s established merit principles.

Proposed Legislation Under Consideration by the Subcommittee.
Although the Commission completed its recommendations prior to the introduction of these legislative proposals, in very many respects they are consistent with or directly carry out commission recommendations. As I noted at the beginning of my testimony, the Commission is gratified to see the high level of interest in and commitment to public service reform exhibited by members of the Government Reform and

Governmental Affairs Committees.

The Presidential Appointments Improvement Act of 2003 addresses the problems of unnecessarily burdensome reporting requirements, the excessive number of presidential appointees, the difficulty new presidents face in getting their team in place. All of these are problems cited by the Commission as needing immediate reform.

The Senior Executive Service Reform Act of 2003 provides relief from the cap on SES pay, which the Commission specifically recommended. It also adopts a pay band system, and institutes pay for performance, both of which were approaches strongly recommended by the Commission.

The Federal Workforce Flexibility Act of 2003 adds in many respects to the government's recruitment and retention arsenal, an ongoing effort that the Commission applauded in its Report. It reinforces the importance of training, believed to be critical by the Commission. It also enhances the ability to conduct demonstration projects. While experiences has shown that this is a needed reform, I will note the Commission's observation that "the time for tinkering around the edges is past," and its urgent hope that the lessons gleaned from the many government demonstration projects could begin to be put in place government-wide.

Finally, the Generating Opportunity by Forgiving Educational Debt for Service Act of 2003, GOFEDS goal of making government more attractive to new graduates is one that the Commission strongly shares. Legislation introduced by Senators Akaka, Durbin, Voinovich and Allen to increase the number of graduates ready to fill national security positions also addresses this goal.

Thank you again for inviting the National Commission on the Public Service to share its findings and recommendations with the Subcommittees.

From start to finish, the Commission was aided, challenged and encouraged by many organizations and individuals long concerned with the state of the public service and the operations of the federal government. It was the input and expertise of these public and private sources of expertise that made it possible for the Commission to accomplish its task. Those contributing to the Commission's knowledge included the Council for Excellence in Government, the Kennedy School of Government, the National Academy of Public Administration,

the Partnership for Public Service, RAND, U.S. General Accounting Office and the U.S. Office of Personnel Management.