

A Public Hearing

Public Hearings of The National Commission on the Public Service: A Time of Crisis and Opportunity

Day Two: What Government Needs; What Federal Employees Want

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PAUL VOLCKER: Ladies and gentlemen, I think the bewitching hour has come and been exceeded a little bit, and everybody has had a chance to settle down. Today, after listening to the leader of the judicial branch of government and his associate on Monday, and leaders from the congressional side and the executive side, we have now what are rightly listed as distinguished voices of experience, people who have actually spent a good part of their careers, if not all their careers, working in the federal government and have some sense of the problems, not, I can't say, from the bottom up but from long experience in various positions on the executive and the judicial side.

We'll start with Donna Beecher, who I see has her own description of herself as a visionary. I think you qualify for being here. We all have to be a little bit visionary if we're going to make an impact on changing government and having some impact on governmental management. You have had very broad experience on the personnel side particularly of government in various places, including most recently the Department of Agriculture. We are delighted to have you here and I'll ask you to lead off. We've got this arrangement where we have to crane our necks. I didn't want you down there in the bullpen but we will crane our necks and lend our ears very closely. Oh, and I should say I'm delighted to have members of the commission that were not here on Monday, Connie Horner and Bruce Laingen, who directed some of the commission, a larger commission, a longer commission, 15 years ago, Donna Shalala, who has had something to do with government and education and athletics, Frank Raines, who was just whispering up here about his perspective as ex-budget director, who has to keep things under control when various requests are made for changes, but now has escaped into a quasi-governmental, quasi-private position where he has a certain amount of freedom, and Dick Ravitch, who's an old public servant as well as private entrepreneur from many years back, who just completed a commission on housing where he goes from one commission to another, and we hope we have a substantial impact as a result of all these commissions. I'm delighted to have you all here.

With that introduction, Ms. Beecher, please proceed as you would wish.

DONNA BEECHER: I'm delighted that the commission has taken up this challenge and I wish you all the best for the future of the civil service and the federal government.

I came into government as an intern at the Department of Housing and Urban Development in 1968, having been trained at the Maxwell School at Syracuse by the likes of Scotty Campbell and people of that sort. I come to my career as a true believer in the merit system, and in the civil service system.

And I have watched over the years as many welcome flexibilities have been added, but I would urge the commission to approach its work looking at ways to substantially improve upon the core of the body of rules and regulations that comprise what we think of as the civil service, even to the point of going to assessing and reexamining some of the merit principles, are they stated correctly, are they being applied as you would want to see them applied, and do they have meaning in guiding the actions of people across government.

I have been frustrated at times with the propensity to want to find work-arounds or exceptions to the civil service system as opposed to the commitment to really examine the basic core of the civil service system itself and asking what's working, what's not working, why isn't it working and what could be done to improve upon it.

I think when the principles are clear and agreed to there comes from that a sense of confidence and clarity and integrity, and when the exceptions start to build up in a confusing array the price that's paid is that there is confusion

and complexity and it's very difficult to answer very simple questions like how do I get a job with the federal government. We pay a big cost for that confusion and that complexity.

I mentioned some welcome flexibilities. You hear the term flexibilities a lot when you talk to people who like government and want to make government better, and there are some wonderful flexibilities now at our disposal, things like recruitment bonuses and the flexibility to repay student loans. I think we're all frustrated that those flexibilities are not always used to the extent that people thought they might be, in part because agency resources are so thin that they don't have the ability to pay for some of the flexibilities and secondly there is a bit of fear that when you ask people to make decisions on an individual basis that those decisions might be challenged by others who think they should have gotten a bonus and didn't or they should have gotten a student loan repaid and didn't, and that inertia is I think part of the underlying reason why some of the flexibilities that have been in place since 1978, '79 under the Civil Service Reform Act and the Locality Employees Comparability Act made some wonderful changes but you haven't always seen them come to full fruition.

When I mention even revisiting the basic merit principles, let me maybe go into one as an example. The first merit principle deals with the fact that appointments to the federal service will be on the basis of open and fair examination and competition, and that veterans will be afforded preference in federal employment.

I think everyone agrees with that principle, though in practice there is some foot dragging. Even the issue of open competition, in my experience over 33 years, there is tremendous pressure every day to try to restrict the openness of the civil service system. Employees and their representatives often want to limit competition for promotion and for jobs to people who already work for the government or at least they want them to have the first shot at those opportunities.

Managers want their jobs filled quickly and if they think it might take a little longer to advertise jobs open to all qualified persons in the public they are somewhat resistant to that. They would like to sub-optimize that condition by limiting the open period to maybe just a week or two and get moving with filling the job quicker rather than a longer period of time.

The issue of veterans preference is a very sticky and political sensitive issue. The way it has been applied is particularly problematic, namely numerical ratings, the rule of three, and the requirement that you cannot pass over a qualified veteran in order to select a non-veteran.

Let me explain very briefly how the process works in most agencies and how, at the Department of Agriculture, we have successfully tested an alternative to that process while still providing veterans full preference in federal employment.

Currently, when an agency advertises an opening for all qualified persons people apply and their applications are assigned a numerical score based on a scale of 100 but the score is actually carried out to a tenth of a percentage point, so you have a 93.5 or a 97.6.

People are then ranked in numerical order. Disabled veterans are afforded ten extra points, and if they are basically qualified they automatically go the top of that ranked list. Other veterans who are entitled to preference receive five additional points on their score.

The list that is provided to a supervisor or a selecting official usually consists of about five to seven names for every individual vacancy. However, the supervisor is only able to consider the top three candidates for that position and may not pass over a preference eligible to select a non-preference eligible, so you can see a scenario where there might be a rule of one if the person at the top of the list is a veteran and the other two are not.

What is particularly troubling about the rule of three is it's based on an individual, and not on people who may share or tie with the same score. So if you have a lot of applicants and you've got five or six people who've all scored 99.6, you have to find a way to find a person and what order you're going to put those six people in. And most people I think don't realize that the most common way for breaking ties in that scenario is a random number generator, which does not speak to merit in my book.

What we have tried with great success in the Foreign Service and the agricultural research service is a categorical rating and ranking process. This was originally approved as a demonstration project but it is with great frustration that I'm here to tell you today that we've been unsuccessful in getting congressional approval to even extend it to the rest of the Department of Agriculture, much less to the rest of the federal government, though Congress has given similar authority to the IRS and FAA as part of their special human resource authorization provisions.

In the categorical rating process people apply and they're assigned to one of two categories, a quality group or the eligible group. And veterans within the quality group become a top subgroup. But it affords a selecting official access or opportunity to consider a much larger group of people. It also is easier to explain and defend and employees accept it because they can understand it. The criteria for what distinguishes quality candidates from eligible candidates is laid out very clearly at the front end of the process.

So, I think that Agriculture has shown that there is another way to apply veterans preference that eliminates some of the non-merit, unintentional consequences of the rule of three, and I would strongly urge people to support the expansion of that solution on a broader basis.

Whether there are further opportunities to redefine what our policy is about veterans preference I would not want to weigh into that too deeply, but it seems to me that we do have a special obligation to provide preference to any veteran, disabled or non-disabled, who is unemployed and we have an obligation to provide them with an opportunity to transition from their military careers into the civil service or into civilian life.

But I will tell you that just about every certificate of eligible that is produced in a personnel office in the federal government is headed by a substantial percentage of veterans today, for many of whom it's been 10, 15 years since they have been discharged from the military. They have wonderful job experience but it creates a psychological problem when managers are given a set of resumes and the scores will show that there are some better qualified people farther down the list and you can't consider them because they are not veterans.

So, I ask is this how we want to define fairness or is there a different way to afford veterans meaningful preference and still adhere to the merit principle of open and fair competition?

I think I'll leave this particular merit principle and just make a few minor quick points on some other things and then let my panel colleagues speak to other issues.

One of the other merit principles is equal pay for equal work or work of equal value. This is really what underpins our position classification system and a system that most people will tell you is often ignored or dysfunctional or is not serving a purpose other than to keep things more or less internally equitable within the federal government. But it doesn't help us compete with other employers in the marketplace.

I think we need to find a way to create a more market sensitive pay setting process that is more externally equitable, and it will be important in doing that to distinguish between occupations and even sub-occupations. We had a demonstration project at the National Institutes of Standards and Technology. It was mandated by Congress in the late 1980s. They were expected to test an alternative pay comparability system. And they spent hundreds of thousands of dollars with consultants doing pay comparability, benefit comparability analysis, but late in the congressional debate that authorized that project there was a restriction or a provision that whatever the magic number was that was the pay gap that was going to be corrected it had to be a uniform pay increase for all categories of employees.

And so an agency that very much hoped to show that it could establish a market-based pay system that perhaps gave its scientists and its engineers larger general increases than some of their other categories of employees found themselves totally stymied with an average general increase. So the people who were underpaid before continued to be underpaid and the people who were overpaid continued to be overpaid.

The second year the project was completely re-described to become a pay for performance system because it could not function as a meaningful test of an alternative pay comparability system.

I have never worked in an agency that has had a system that is based on ranking a person except for the commission core at HHS, but I do think that the Foreign Service and the military services and the commission core and others

that are based on that concept seem to finesse some of the problems associated with a position based compensation system and I for one would like to learn more about those systems and I would recommend that the panel ask for some testimony on how those systems operate.

There is a lot of interest in moving to pay banding to simplify the position classification system, just create much broader bands, but the question that follows is always how will people move through those bands, how will pay basically be adjusted from the minimum to the maximum, and the acceptable answer is pay for performance. I think, however, that we must remember there are a lot of behavioral issues around performance management and I don't think that a few agencies have strong performance management systems that can really sustain basing base pay decisions on that supervisory judgment. There are some and there are some cultures that have already shown that they can support that, but in the Department of Agriculture there has been a great retreat even from a five level rating system to a two level rating system, a pass/fail system simply to avoid the pain of appeals and EEO complaints often of people who want an outstanding rating and were given simply an "exceeds" successful rating. I think the reason that performance management and even the use of flexibilities is falling short of our expectations is a vacuum or a lack of attention to leadership. And in conclusion I would simply like to say that I think the crisis in government is not so much of competency but it is of leadership, and I mean that at all levels.

People in executive management supervisory positions are often working supervisors and working managers and they get their rewards and they get their encouragement and their direction about the substance of the programs and the policies and the work that their organizational unit is expected to deliver. They don't get messages very often that say that their primary role is leading people, and that means making sure that the people who are assigned to them as resources for their organizations are well matched to the work that needs to be done, are well developed for the skills and the work that they need to do, that the job of a leader is to develop future leaders and to provide performance feedback in a very honest and helpful way. Performance feedback is a gift and employees' answers to that gift should be thank you.

In quick summary, I think I would urge the commission to start or at least embrace in its analysis the very fundamental values and principles of the merit system, to not go to the fringe and look for work-arounds and exceptions but to go to the core. Second, at least expand the categorical rating process across all of government. Third, don't expect to legislate a performance culture in government but work towards it, and in order to do that to put a very strong emphasis and focus on leadership, that the job of agency heads and their assistants and their managers is leading people.

Thank you for the opportunity of sharing these thoughts.

PAUL VOLCKER: Well, thank you very much for those words from experience in a difficult area that will preoccupy us.

It is obvious, and I should have said earlier, as typically in these cases, we're going to have a timing problem. We have eight people who are confined to two and a half hours without any breaks. We should conceptually and, in fact, allow a good deal of time for discussion, so I think we'll delay the discussion until we hear from all of you, but I would urge you to be as succinct as you can be so we can have discussion. Already, a lot of questions have arisen in my mind and I'm sure in other people's minds, so we do want to have some time for discussion.

Matt Crouch, who represents those bright new people attracted into government in the Presidential Management Internship Program, which is the desirable way I guess to get into government, a lot of people come in that way, maybe not as many as should; a lot leave fairly promptly. So I take it there are advantages and problems and you're going to tell us about both.

MATT CROUCH: Thank you very much, Mr. Chairman, members of the commission, fellow panelists. It's a particular honor for me to be here today as I began my career as a member of the federal service 13 years ago as the previous National Commission on Public Service was completing its work. And I started my federal career at OPM when it was under the able leadership of Ms. Newman, and one of my first assignments was to examine the previous commission's work for implications for OPM.

Of course, back then I was naïve enough to believe that all of the changes called for would immediately be implemented.

PAUL VOLCKER: And they were all correct.

MATT CROUCH: For the length of my federal career I've had the opportunity to work closely with the PMI program, Presidential Management Intern program, in a variety of capacities. As the many members of the commission who have been long time supporters of that program are aware, it is a program designed to recruit, select and develop permanent hires with exceptional ability and an interest and commitment to a career in the analysis and management of public policies and programs.

In fact, the previous Volcker Commission identified this program as one worthy of expansion because it held the potential to work against two of the government's problematic employment tendencies, an ever-increasing emphasis on specialization and the failure to develop managers.

Unfortunately, it's my perspective that, if anything, those tendencies in the government are even worse today, and I regret to report to you that, as the merit systems protection board reported last year, while the Presidential Management Intern program has very successfully been expanded from class sizes of 200 to 400, emphasis on recruitment and development of those with specifically management potential and the capacity to be generalists has been somewhat weakened.

Through the years I have been struck by the degree to which the PMI program sheds an interesting light on the broader civil service. Some of the program's great strengths result precisely from its deviations from standard federal employment practices. And most of the program's weaknesses are actually weaknesses of the broader civil service that the program simply cannot overcome.

I'd like to share a couple of those areas with you in case they may be instructive.

As you are all aware, the overwhelming trend in the federal government's administration of HR over the last ten years has been in the direction of decentralization of personnel administration. While pushing control and execution closer to the line has been usually commendable, it has run the risk of discarding some of the synergies that can be achieved from centralization.

The PMI program is a good example of how to optimize HR outcomes through a blend of selective centralization for synergy and decentralization for flexibility and initiative. The recruitment, the screening and some of the developmental parts of the PMI program are centrally administered by OPM, while placement in actual jobs is facilitated by OPM but is actually conducted by the individual agencies. In fact, it's conducted by agencies competing against each other.

All of those agencies that hire PMIs benefit from the centralized parts of the program not just because of efficiency but because it makes it so much easier for prospective applicants to hear about and to apply for the program. This example bears note when contrasted with other avenues of federal employment. Similar to the PMI program, the government has benefited tremendously from OPM's centralized stewardship of the USAJobs Web site. When I was in grad school, those who were interested in applying for federal employment through normal channels had to repeatedly physically visit the individual personnel offices in every single agency and bureau that they might be interested in seeking employment with. Today, all of those vacancies are in one virtual location.

However, after the admittedly welcome demise of the SF 171 variation between agencies has meant that the vacancy announcements that are today on USAJobs contain a frustrating variation of application instructions and requirements. The frustration is compounded by the fact that the vast majority of agencies still require indefensible amounts of information in order to apply for a federal job. To suggest that applicants may simply submit a resume is laughable when the fine print indicates that the resume must include your social security number and the location of the high school that you attended.

I recently attempted to interest some friends of mine who had lost IT jobs in the private sector in pursuing federal employment opportunities and I am sad to report that my efforts were literally greeted with laughter and then

revulsion when my friends were confronted with a position description type of language used in so many federal vacancy announcements and the hoops required for application.

One of the other areas where the PMI program shows remarkable strength compared to the overall civil service is in providing flexible means of matching employees with jobs. After OPM selects finalists for a PMI class, OPM then serves as a matchmaker of sorts between finalists and agencies. Once PMIs are hired into specific situations, where necessary, rematching is facilitated by the program's hiring authority, which allows easy transfer between agencies and by the system of developmental rotational assignments, which also serve the purpose of providing PMIs and agencies an opportunity to explore alternative matches.

This flexibility is remarkably lacking from the standard civil service. It can be very difficult for employees to obtain developmental reassignment and in most cases transferring between agencies requires all of the steps necessary for new entrants to the civil service.

On that point, I've come to the opinion that in the federal government hiring often works just the way it works in the private sector. We simply spend large amounts of time and money to pretend that it does not.

As someone who is committed to continuing to develop in my career and has been in the same job now for about four years as Director of Strategic Planning at NASA and at the same agency indeed for ten years, I'm at a point in my career where transition would be timely. While it's certainly helpful that USAJobs facilitates any such search, I cannot overemphasize the frustration that is engendered by the enforced presumption that jobs may not be pre-selected. The frustration comes from the fact that many jobs are, in fact, pre-selected but that there is no way for prospective applicants to know which vacancy announcements represent a genuine desire and need to hire versus those for which someone internal or somebody already known to the hiring official is going to be selected. Since the current system does not seem to prevent pre-selection, even in those cases where the person hired is not especially qualified, I cannot help but to suggest that a more efficient system might be one that more freely allows promotions and pre-selected hires without the posting of a vacancy announcement.

The notion of a system where all selections are based purely on merits is a great dream and it is one that I share, but it may be time to settle for a less costly and less frustrating system in which we acknowledge the realities of the hiring process, eliminate pro forma competition and revise our objectives to explicitly be that some jobs might be filled based on open merit competition.

Past federal HR practices have almost universally lacked succession planning and broad career development. This has been apparent from the perspective of the PMI program as it has limited the agencies' capacity to provide solid developmental assistance to PMI, and at the conclusion of the two-year internship PMIs are left with the same absence of career path and developmental opportunities that most federal employees experience.

The PMI program hardly makes sense as a recruitment program for future managers in the complete absence of systems that continue to develop former PMIs or any other employee into management positions at higher grades, and the federal government will never succeed in maximizing its use of the talent available to it in the absence of greater investment in these kinds of capacities.

Finally, I would like to point to another problem encountered by the PMI program that is endemic government-wide. If it is true that it takes money to make money, I would suggest that it takes employees to make employees. The PMI program, it turns out, is not an easy program to administer, something, which I'm sure Donna would agree, having had that in one of her many portfolios at OPM.

At any given time, the staff of this program must simultaneously be administering recruitment aimed at thousands of people, screening of over a thousand applicants, placement of 400 finalists and development of 800 current PMIs, and OPM has continually struggled in recent years to adequately staff this program, at no point achieving more staff than three.

Similarly, in recent years it has been my observation that many HR offices across the government appear to have struggled to get by on too few staff with inadequate compensation, inadequate training and inadequate management attention. Process reengineering, unfortunately largely ignored by the NPR induced downsizing of personnel offices, can help a great deal, automation can help some, but at the end of the day I don't believe that the government will

succeed in improving its management of human capital until it makes an adequate investment in the staff and the systems that are required.

This investment is obviously not easily obtained as it must come in a time of heavy demand on federal dollars, but if the government is to break out of its cyclical pattern of paying attention to civil service and employment issues only in times of difficult recruitment, the government must build up and retain its institutional capacity to manage human capital.

One last brief note on the topic of pay: The PMI program is another case of our not having done any great favors to ourselves when it comes to recruiting. The mandated starting rate for PMIs is a GS-9 and it is not particularly competitive, considering that all PMIs must have an advanced degree. Worse, for the bulk of new PMIs who are hired into Washington, they simply must sacrifice for their first two years of federal employment because of the high cost of living and in particular of housing in the Washington, DC area.

The government can choose to ask that kind of sacrifice in exchange for employment with the government, but I think we all pay a price when we ask for those kinds of sacrifices.

I hope that the commission will find some application with the analysis in its recommendations from these examples and I would like to personally thank every member of the commission and your staff for the work that you are doing. Federal employees are often isolated with the many frustrations that come along with our environment and it is gratifying to have such a distinguished panel devote their time and energy to wanting to influence improvements in that environment.

Thank you.

PAUL VOLCKER: Well, thank you for your contribution to our thinking; a voice of experience in a very important area.

I think we'll go to Connie Newman now, before we return to the judiciary that we have heard from earlier. We're delighted to have you. I don't know who has had more experience in various aspects of government, semi-government areas than you.

CONNIE NEWMAN: Well, Mr. Chairman and members of the commission and panel members, I very much appreciate the opportunity to appear before you today for three reasons. First of all, it gives me an occasion to thank you on behalf of I think the general public for staying the course and trying to take the steps necessary to ensure an effective public service for the present and for the future.

I also appreciate the opportunity to bring the perspective of political appointees to your deliberations, and finally it's a wonderful opportunity to see old friends, albeit in a more formal setting.

I thought I'd present my testimony in the form of questions and answers. My questions are as follows: Why do they, we, political appointees, come? Why do we decline the offer or why are offers revoked? Why do they leave? Why do they stay? And what can and should be done to improve public service for political appointees? For each question I'll list what I believe the answer to be with some limited explanation and then welcome questions. The first one, why do they, we, why do we come? Before giving a list, I'll tell you one thing. I was going to name people on each point and I started getting into some of the more negative points and I thought, wow, that's too risky, so you'll have names for each of these points and I'll let you stick with your names and I'm not going to take the chance.

But to the question why do we come, you on the commission, many in this administration, many in the Clinton administration, Bush and Reagan and, in fact, we could go back in time and find that each administration, many who serve are people who have served before and who are wedded to public service. The confirmation hearings, the swearing-in ceremonies of many presidential appointees give a flavor of the reason people accept political appointments. Those reasons include the chance to make a difference in the lives of others. It provides an opportunity to support the president's programs.

Of interest is the following: Almost 20 percent of those interviewed as part of the Brookings presidential appointee initiative said that the job provided a good chance to meet and work with stimulating people, while others cited public goals and serving an admired president as reasons to go through the appointment process. Other reasons include it's an opportunity to use one's skills and abilities, it's an opportunity to obtain new skills and experiences that can be useful for career development purposes.

The second question, why do they decline the offer or why are offers revoked. Well, the first one you all know. Connie Horner and I were talking about this earlier. It's because of the nature and expense of the confirmation process, and many reports show that each president, the length of time that it takes for the confirmation to take place is being extended. And the report that Paul Light knows so much about and he can give you the most recent facts that under Bush 25 percent had to wait longer than six months, 25 percent of political appointees. With Clinton it was 44 and I'm certain that it's much higher than that now, but Paul can tell you that.

In any event, it is one of the reasons why people don't go through the process. It's not the length of time but it's the nature of the questions and it's the invasion of privacy and it's also a feeling on the part of many of us, and I've been through it four times now, that there is very little relationship between many of the questions asked and whether or not we're going to be ethical or not ethical, whether we're going to do or job right or not.

I had long conversations—is anybody from the FBI here—with the FBI to try to get them to shorten it because you couldn't tell whether somebody was going to be a Watergate scandal person or not based on a lot of those questions. Anyhow, you know full well that that process is part of the reason why people are turned away.

Another reason is there is an indication, a person may feel there's an indication that the confirmation process will be difficult because of political policy positions that they have taken in the past and they are concerned about opposition by interest groups.

Another reason, and it's a very legitimate one, is there's a possibility of potential strain on and embarrassment to the family because of either fair and unfair accusations, particularly about personal behavior.

Another reason is reduction in salary and benefits, as well as expenses associated with moving and often the inconvenience of moving children from their school environment.

Question three, why do they leave? Well, the obvious reason, the administration is over, but another reason, and there are names that we can attach to this, is it's a matter of principle and maybe a major disagreement with the president or leadership and administrator and as a matter of principle people believe that they can no longer serve their principles and the administration. In a few instances, and very few, there might be uncovered incriminating pre-service information about the political appointee that surfaces after confirmation.

A reason that people don't really about but I think is behind why many leave, they came with unrealistic expectations about what can be accomplished and they misunderstood their roles and responsibilities, not understanding that they're a part of a team and really cannot control everything, so out of disappointment there are some political appointees who leave early.

Failure of the political appointee to work effectively with the career civil service. Travel and gifts and other in-service ethics problems. Trouble working with the Congress. Another reason is weariness, that political appointees get tired of getting beat up by interest groups, agency power grabbers, Congress and/or the media.

And another reason and this is the last on my list here is the appointee has poor or no management skills and hence is frustrated and frustrating.

Why do they stay? Well, it's in part why they came. It's a real opportunity to make a difference. Because the appointee has determined how to work with the career service, the administration officials, OMB, Congress, the media, interest groups, et cetera. The position provides an opportunity to support the president. For some there are very limited alternatives on the outside that give them interesting, fast-moving opportunities. And the individual is receiving sufficient recognition for the work well done. All of us who serve know you're not going to get too much recognition and usually when people say thank you it's attached to what are you going to do for me tomorrow.

My last question, what can be done to improve the process and ensure effective and fulfilled political appointees, well the first obvious is improve the confirmation process. There are all kinds of reports, the most recent one, the Presidential Appointee Initiative; there's no need for another study.

The only thing I would really suggest is that there be an analysis of what are the characteristics of the political appointee who has been ineffective and unethical and then what questions do you need to ask, what do you need to know about the person that would let you know that ahead of time, and then remove a lot of the other information that fills the notebook that I received this time.

Formal orientation of career service about the important role of political appointees and how to work with political appointees. Orientation of political appointees about the importance of the career service and the relationship to the career service. Consider proposing incentives for political appointees to care about management, to care about leaving the organizations in better shape than when they found them, maybe presidential awards or fanfare, the Rose Garden or maybe even some money. There should be practical ethics orientation, select section 1, 2, 3, 4, 5 of the CFR and more, what gets people into trouble, for example, if you take trips home and pretend you're on official business you're going to be in trouble. Those kind of guidance ideas I think would be very helpful to political appointees.

So I'll stop there. Thank you and I look forward to your questions.

PAUL VOLCKER: Thank you. I anticipated comment. I didn't hear one word about pay.

CONNIE NEWMAN: I said that one of the reasons that people didn't come was salary and benefits. Yes, I did say that.

PAUL VOLCKER: Judge Tacha.

JUDGE DEANELL REECE TACHA: Thank you. I just want to echo the words of my fellow panelists in thanking all of you for the time and energy and commitment you're giving to this effort.

These other people are the visionaries and I'm the cleanup hitter for the judiciary. It's one of the cardinal rules of appellate argument that when the great oral argument has been given and all the points have been discussed effectively, the advocate should sit down and keep their mouths shut.

I find myself mindful that the great oral argument was made on Monday and that the advocates covered all of the points, so I decided rather than go back to all of that I would take your questions on directly, the ones that were asked of the justices and play my role as cleanup hitter, if you will.

Let me begin with the obvious question. If judicial salaries are inadequate, what should they be? Where should they be?

We know we cannot keep up with the private sector. We do not expect to do so. We came in for some of the reasons that my distinguished panelists describe. We came in because we believe in public service, we believe in giving our lives to public service. We know we make a sacrifice for that.

But I would submit to you there are two indicators, at least two indicators of what the numbers ought to be and ways that help the commission answer the amount question. One of them Justice Breyer gave you in one of his foot chart examples. He showed you that in 1969 the senior law professors at the major law schools and the law deans were making significantly less than the federal judiciary. He also showed you that in this year those same people, those senior law professors and the law deans at the major law schools are making significantly more than the federal judiciary.

I myself came from higher education and it is a bit painful to see the sacrifice I made just to come into federal service. People in higher education will find it ironic that we're using that as a benchmark.

There is a second, I think, indicator and it is a few sessions ago that Congress raised the president's salary from 200,000 to 400,000. That increase suggests a commensurate percentage increase for people at the highest levels in all three branches of government.

Both of those indicators lead us to the inescapable possibility that a recommendation of doubling judges' salaries and the salaries of those people at senior levels would go a long ways to making up the deficit not with the private sector but with charitable organizations, with law deans and law faculties in the major institutions of the nation, and would at the same time make a huge difference in the pay compression that is occurring throughout, I think, all of government but has happened so clearly in the judiciary because it's the Article III judges that set the pace for all of our employees, all the bankruptcy management judges, everybody throughout the system.

And just as my colleagues here have said, we hire IT people, we hire executive, we need good clerks; they need to be technologically savvy. We simply cannot compete out in the marketplace at the current pay compression levels throughout the judiciary.

Or if that number scares you, you've already been told that just to bring a district judge back to the level of 1969 it would require about \$37,500 just to adjust—

PAUL VOLCKER: How much?

JUDGE DEANELL REECE TACHA: Thirty-seven thousand five hundred dollars just to adjust them back to where they would have been in 1969.

And let me remind you there are only 2,000 federal judges in the entire nation. That includes all our senior judges, bankruptcy judges, magistrate judges. We are not talking about a very large group of people.

The entire budget, everything, of the third branch is less than one-half of 1 percent of the total federal budget. Regardless of what you recommend, the fiscal impact is very, very small.

Finally, another amount I'd like you to keep in mind is that the 1989 commission recommended that a district court judge's salary be pegged at \$135,000. If that had happened after the last commission, along with regular cost of living index adjustments, a district judge today would be making \$204,100, which is 73 percent above where they are.

Now, those are amounts. Let me turn to another question that was asked of those distinguished justices. What about the political reality of the obvious link between congressional salaries and salaries of the judges?

The judiciary believes, and believes emphatically, that there are important institutional reasons that Congress too should receive a very significant pay increase. They face just the same challenges and choices that the judiciary does. It should not more be an impediment to congressional service that salary is inadequate than it is an impediment to judicial service. Indeed, the Congress faces the added problem of two residences and service both in their home district and in Washington.

Now, we are fully aware and have lived for many years with the political imperatives that make it very difficult for members of Congress individually to confront the very serious institutional and national problems that are surrounded and apparent in the compensation issue.

If I had one plea for this commission, it would be that somehow you find a mechanism and are able to recommend a mechanism that will take into account these critical national and institutional issues while at the same time being sensitive to the political challenges encountered by individual members of Congress. It is a national, institutional problem.

Now, another question that was asked the justices was whether anything other than salary would be an incentive to judicial service or would keep some of these people who are leaving.

Now, Justice Breyer answered that in the same way I think we would all answer it. Yes, of course, there's a clear incentive. We love our work. It is a wonderful job. We have great colleagues. The cases are interesting. We are constantly challenged. We would almost all stay and there would be far, far more who are interested in judicial

office if it were not for the attendant financial sacrifice that goes with it and is becoming more and more pronounced.

I think though the question did not go to how good our jobs are. I think the question went to is there something other than salary that would recruit and retain people in the judiciary, things like benefits to assist those of us who are currently in it and old in it, I might add, but it is that front end compensation that is so important.

What about a little harder one? One of the commissioners on Monday asked about the device that's commonly known as locality pay. There, both philosophical and practical reasons that locality pay is simply not appropriate for the judiciary. That approach ignores the fact that judges, regardless of their duty station, are doing the work of the nation. They do the same work wherever they are. They carry very heavy caseloads. They are asked to do duty in all kinds of locations. The decisions that they make impact far beyond their locality. But most importantly, most importantly they are part of an institution where both independence and equality of each judge are the watchwords of the system. Any system that differentiates among judges on the basis of personal choice or personal characteristics seriously undermines those basic institutional principles of the equality of each judge.

Now, on a practical level it's even easier. On a practical level the divide simply does not achieve any political or fiscal goals in the judiciary. Over 70 percent of our judges are located in major metropolitan areas, where, as a matter of fact, they would get very high locality pay adjustments. Thus the principle of equality of the judge would be so seriously compromised at the expense of less than 30 percent of 2,000 people. It simply is not practically a very good system for us.

The other thing is it ignores the obvious. The one thing we hear over and over in the judiciary and I think repeated in the American public is we want to be able to educate our kids in ways that are thoughtful and just and reasonable. Well, the tuition that we pay knows no locality boundaries. My children are in the states of Washington, Ohio and Illinois. So I think those considerations suggest that for the judiciary locality pay is simply not an answer. Finally you ask who are our friends and allies who might be able to help us on this very almost intractable question of judicial compensation. Over the years the judiciary has been so very fortunate because we have had friends in many places. We have had friends in the legal profession, business, in labor, among government organizations. We have worked very closely with many good advocates, people like the Senior Executive Service, the Business Roundtable of American Corporate Council, the National Bar Association.

I wish however to highlight two groups, and they're both represented here. One is the American Bar Association and one is the Federal Bar Association. Both of those groups have been our constant partners in every effort we have undertaken on judicial compensation. Most recently they were our partners in drafting the monograph that is available to you called "Judicial Pay Erosion, a Need for Reform." That report I hope you'll take a good look at it because it sort of covers all the points that need to be covered.

I can tell you as cleanup hitter here that the case that the justices made to you on Monday is very real. The judiciary is, in fact, in crisis. My colleagues throughout this nation are, to put it mildly, dispirited. When neither the Ethics Reform Act nor the Quadrennial Commission operated as it was statutorily enacted. To the judges it was like a pledge twice broken and that has resulted in serious erosion in the institution of the judiciary.

As judges are asked to tackle an ever-increasing caseload composed of ever tougher issues, there is, I have to tell you, a strong sense of betrayal among some very able people.

I have given you in my materials a lot of examples. I will only cite to you mine. I came on the bench in 1986. I am an old judge. In that year the federal appellate judiciary handled 34,000 cases. In 2001 we handled over 57,000 with almost no net judicial additions. Any three-judge panels in this nation went in 1986 from 659 cases to in 2001 a little over a thousand cases for each three-judge panel. These are heavy scientific cases. They are technological cases. The nation is preoccupied with criminal justice enforcement, with economic regulatory issues, with immigration issues; all of the major issues of our day are on our plates and we are simply having to run as fast as we can in the face of just plummeting compensation.

The point is simple but it is important: Our system of government requires that federal judges, because of the seriousness of the questions presented, be highly qualified lawyers and that they operate free from any extraneous influences. You have heard the statistics but I can tell you I see the people's faces. I see the letters from judges and

they are serious. It's not just dispirited; it is much more than that. It is a part of a problem with implications far, far beyond next year's judicial salaries. The trend of departures is staggering. The damage to the judiciary is more severe and more immediate than anything I have seen in all my years on the federal bench.

The letters spell out these worries; I will not. I will only tell you that all Americans sacrifice for their kids' college and all sorts of things, but not all Americans are confronted with such stark choices as judges have, of abilities to go back out into the private sector at enormous differences in compensation. And every morning with four children and no other significant source of income in my household and about three of them in college at any given time, I agonize every morning whether I should have left higher education. If people like me who are so dedicated and so committed have to think about it every day, what about the judges of the future? Who will they be? I think a great debt is owed to the men and women in the federal judiciary. They are very good people. Some of them are with me today, my colleague Judge Richard Arnold of the 8th Circuit, colleague Grady Jolie of the 5th Circuit and Federal Judges Association, my colleague and dear friend Bob Katzman of the 2nd Circuit. These judges represent the best and the brightest in this nation. It is wrong, it is simply wrong for our nation to exact such a steep price for public service. Rather than a reward for selflessness we are imposing a penalty.

Let me tell you how bad it is for the institution. As a result of this salary neglect, between 1958 and 1969 only three Article III judges resigned from office. In the '70s, as inflation started to take its toll, 22 judges left the bench. In the '80s no less than 41 left the bench. By the end of the 90s it went to 55. Since 2000 18 more Article III judges have left the system. We are losing our best and most experienced people. You know where they go. They go to the private sector private sector to try to raise some income for those families.

My focus is on the Constitution. The chief justice and Justice Breyer ably told you about the focus of the Constitutional Convention and the importance of an independent judiciary. My colleagues and I who join you today come to you in the same reluctant posture that Justice Breyer came in. There is just something unseemly about pleading for your own salary, but we are not here for us. The judges in this room and many others around the country are people who will likely stay. We are in this because we are public servants and have been for many years.

As Judge Arnold is often wont to point out, we have been bought and mostly paid for. This is about the future. This is about what kind of judiciary this nation can expect to have in the future. It is about whether the good judges, the able, the experienced on the bench in the face of the continual erosion of our compensation will really be able to stay.

The plea is about a very real danger that the judiciary of the future will be composed either of the very wealthy or of those who have little or no law practice experience.

Some of the best judges in the nation have come over the years from very active law practice. Some of them are on my court and they are on the courts around the country. I can say that because I came from education, but they know what it's like to be out there working in the legal profession. Historically the strength of the bench in this nation is that it has reflected the diverse setting in which we practice law. There is very grave danger that that will not be the case in the future.

Now, let there be no mistake. Judges that come through the system of the state and federal system are very good judges, but we need to make sure that this remains the kind of bench where judges are generalists not career judges, where judges have a lot of experience from which to draw and where a rich array of professional experience among judges strengthens courts and preserves the dialogue on the toughest issues of our time.

This plea that we make is about preservation of the jewel in the crown of the world's legal system. It is about preserving an independent and highly qualified judiciary that will continue to keep commerce and our capitalist system tethered to the rule of law and appropriate regulations. It is about a judiciary that will protect basic human rights and fairly weigh very tough competing interests without any thought of personal interests.

It is, above all, about a judiciary that will preserve for our children's children the legacy of freedom, of which we have all been such fortunate beneficiaries.

We should ask no less of this nation, and I thank you for your service.

PAUL VOLCKER: Thank you. You have swung very hard at the pitches. Let's see how many home runs come out. We have reached the time for discussion and questions and who among my associates would like to start. Are you satisfied on locality pay?

CONSTANCE HORNER: Oh, definitely. I'm sorry I asked; a very persuasive response.

DONNA SHALALA: Could I ask Judge Tacha, because I've heard the tuition thing before and because the civil service actually has some packages for paying off loans, I want to know how significant the tuition piece is, if there was, in fact, a program, because it certainly is cheaper to do something short term like helping judges pay off student loans that they've taken out for their children than it is to make major changes in compensation. Obviously we all believe you should make changes in compensation but because the civil service has had some experience in dealing with student loans in particular, there may be something creative here but I can't tell given the age distribution of the judges how significant the tuition piece is.

JUDGE DEANELL REECE TACHA: I don't have any objective data on how many judges have kids in college or are footing student loans but my anecdotal data says yes, of course, it's very important, because you think about when people come into the federal judiciary, I don't know what the current appointee ages are but they're probably about the age I was or a little bit older. I came in at 39. My last child was just born when I came in. So obviously tuition is important to a large array of the federal judiciary but not all.

And let me be very quick to say, as I said earlier, any fringe benefit assists those of us that are in, but I think it's that front-end compensation that is just so critical because to bring these good lawyers particularly in from the private sector they either have had to amass an enormous amount, and they may come later after their kids have gotten out of college and those are good people too, but the government doesn't get the array of service that they would from others.

So would we turn it down? No. In fact, we have a Judicial Improvement Act before the Congress at the moment that asks to give the director some more authority, the director of the administrative office of the courts some more authority on a variety of fringe benefits, but I would sell my colleagues short to say any of those things would supplant the just extreme importance of the compensation.

DONNA SHALALA: I just have one more short question for Mr. Crouch. It's interesting that the administrator of your agency was also part of the PMI program, in the first class. As I remember, Sean O'Keefe was in the PMI program and he obviously had a career of going in and out of government somewhat.

I'm wondering whether we've oversold the PMI program. In fact, when I came into the cabinet, Frank, most of the cabinet officers didn't know anything about the PMI. I think I took more than 50 percent of all the PMIs my first year. I think and every year after that we took at least 25 or 30 percent because it was a way of energizing the department filling slots that were going to take a long time to fill because of the awkwardness of the personnel system and bringing in obviously young people and giving them very good experience for a period of time. But the question is: how important is it for the PMIs to actually see a career track or do most of them sort of figure it out? Yesterday I ran into a PMI that had been at HHS early in my tenure who was on the Hill now, and a lot of them end up on the Hill, stay in government, but find ways of putting things together.

MATT CROUCH: And that's the path that Mr. O'Keefe took as well. Yeah, it's an interesting and important question. A fair number of us obviously do sort of figure it out.

And on the flip side of that though there are those, I mean one of the contributors to people that leave, some of them even while they still are PMIs is kind of figuring what you implied, that there might have been a certain amount of overselling to the degree that they had an expectation that this was some sort of—

DONNA SHALALA: That you were going to lateral in and move up right away.

MATT CROUCH: Exactly, that there was some sort of management track. And one of the things that OPM has done in recent years, partly from us, is to try to manage the expectations that are raised through the marketing of the program—

DONNA SHALALA: But basically you skim off the best and the brightest and you keep a percentage of them in government. And even those that don't stay in forever, they might come back in another role.

I had a quick thing for Connie and that is there is no orientation for cabinet people. If I hadn't been in government before, one of my colleagues four years in, the judge will be interested in this, was shocked that I cleared every one that wanted an appointment with me, with the IG and with the general counsel, and I never met with anyone, even if they were one of my oldest friends, without a note-taker in the room, if it was on business, that was a civil servant, that we had rules about these kinds of things and no one had ever said that to my cabinet colleagues that you actually had to set up a process by which you would be protected, particularly when the White House asked you to see someone.

My guess is that we rejected about 10 percent of the requests for meetings with me; they might meet with someone else, but in each of those cases we very carefully screened the people.

I remember the political appointee's orientation when I was in the Carter administration. It wasn't much, just a bit of ethics but now how you set up processes to protect the integrity of your agencies, of yourself and of the president, obviously.

CONNIE NEWMAN: There have been fits and starts of orientation. Harvard had a program that some went to. There are programs on the Hill run by different groups. But, one thing that I found out was this slight attitude on the part of some people coming into the administration that they've got the answer. I'm just saying because I know I tried to put something together and maybe I wasn't the right person to do it but it was kind of some came, some didn't come and I think probably if you make the recommendation and then give some suggestions as to what ought to be the content of it so it isn't just a suggestion to Harvard and Wharton and everybody else to try to think of a new proposal that they can submit, that it's based from your point of view that this is necessary I think would be very helpful.

DONNA SHALALA: The first meeting I had with the political appointees in the department, here's what I said to them: You're going to get in trouble because of someone you know. It's not going to be someone you don't know.

CONNIE NEWMAN: Absolutely.

DONNA SHALALA: It's going to be someone you know, because they're the people that get access to you. Everybody else is pretty well screened. And if they remembered anything, they remembered that. Donna, I was interested in your comments about veteran's preference. Is this just a generational problem given and a problem with the military holding more veterans for longer periods of time in terms of their career? I mean, some of it's generational and what happens to the economy. I assume that when there are lots of jobs out there, there are less veterans applying for federal jobs. Since you've had a long career, have you seen the cycle and whether we're really talking about an earlier generation of veterans or whether we're talking about newer veterans?

DONNA BEECHER: It's a combination, a mix of both.

DONNA SHALALA: Because we heavily recruited veterans for management positions.

DONNA BEECHER: Right. Again, my point is not so much that veterans preference is itself a problem, but it is probably the single most reason why federal managers try to find ways around the basic system, including the PMI program, establishing the PMI program as a program in the accepted service that was limited to people who have been nominated by their academic deans and who had recently completed graduate degrees in public administration or other related fields. Veterans preference fully applies in the PMI program but it's in the accepted service because it is not an open competition.

DONNA SHALALA: And you get very few veterans in the PMI program

DONNA BEECHER: But their preference is fully acknowledged. It's a fine concept, it's a fine principle but it causes some behaviors that have some unfortunate affects in terms of—

DONNA SHALALA: And for the veterans themselves.

DONNA BEECHER: Right, right.

DONNA SHALALA: Mr. Chairman, sorry to take so long.

CHAIRMAN VOLCKER: Mr. Raines

FRANKLIN D. RAINES: I had two questions, one following up on the veterans preference question. As you describe the implementation of veterans preference it seemed to me it mixed two concepts. One concept was ranking people according to their suitability for the job, and then the other was that where you had comparable people, pick veterans first but by applying points to the calculation of who's qualified for the job. You really mix the two concepts because you're not talking about equally qualified people then; you're talking about people who were unequally qualified but some, if there were a tie, should get preference.

And it strikes me that that may be at the heart of the problem of mixing two very different concepts. It may well be, and I would agree that we should have a preference for veterans, all other things being equal, but adding ten points on a hundred point scale, where the scale is measuring qualifications, strikes me as mixing the concepts and leading to some of the dysfunctional results that you described.

DONNA BEECHER: I agree.

FRANKLIN D. RAINES: The other question I had, and Judge Tacha's testimony sort of crystallized this in my mind, is the question of compared to what. I guess everybody would like comparable pay if you could get yourself compared to the right people. And some of the things I think are helpful and some I think aren't helpful.

I mean, for example, the comparison where the president's pay doubled; the president's pay did not change from 1969 and therefore had not been affected by inflation whereas everybody else's had changed, including judges, so a doubling probably wouldn't be the right number. Indeed, I think federal judges were making about \$42,000 or \$45,000 back in 1969 when the president was making 200,000. So the president was making almost five times as much as a federal judge at that point, and I don't think we want to go to reduce judges' pay to \$80,000 in order to restore that comparability.

So I think the president's pay jumping is not the right number. It's a total anomaly. He's the only person—I think it's the only person. Even the vice president's pay went up during that period.

But I found it interesting, and I'm not sure about locality pay. The reason I say that is that the biggest political problem, one of the biggest political problems of setting federal pay is the perception of average citizens. And one of the difficulties that we have is the average taxpayer, not necessarily the people who pay most taxes but the average taxpayer is making something like \$45,000, \$45,000 to \$50,000 in family income. And so when you're explaining this problem to them, we're explaining a problem to them that is so far above their experience, that it makes it difficult for them to appreciate, and it's exacerbated when you look at that average I gave you of the national average, but if you look in different locales and the locales where judges are serving, the difference is even greater and so that causes a problem.

CONNIE HORNER: Frank, that's exactly the context in which I raised that question of the Chief Justice on Monday. It was an attempt to find a way out of the political problem.

FRANKLIN D. RAINES: Well, then one other count on the political problem, and I'm sorry I wasn't here Monday, but often it's misunderstood why Congress cares about the link to judicial salaries. And it's not as much, if you talk to members it's not as much that they don't want judges' pay linked to members of Congress. That is not the issue.

The issue is they want an engine that will push through salaries at least occasionally and they've linked onto the judges as the best focal point for them to ever get a pay raise.

DONNA BEECHER: They probably should link to the military.

FRANKLIN D. RAINES: I mean, so I think part of the question here isn't so much saying that Congress should give themselves a pay raise too. Indeed, the more credible entities you hooked onto Congress, like the military, like scientists at NIH, like others, would probably provide even more cover for Congress to be able to actually go forth. So I think that Congress would quickly get over the idea of people making more than them if they thought there was a mechanism that would actually get them a pay raise.

But I'd like to hear a little bit more on the suggestion of the non-profit sector being the right compared to what, because in all my years of looking at this issue I've never heard that. And maybe the pay has now gotten so far out of line that the non-profit sector looks pretty good as a comparator.

DONNA BEECHER: Particularly higher education

PAUL VOLCKER: That was touched upon.

DONNA BEECHER: As a foundation.

FRANKLIN D. RAINES: But you do now have a fairly robust market in the non-profit sector, and there are a lot of very large non-profit entities now, which may not have been the case before. They are running very large enterprises with different kinds of job classifications.

If this panel were to say that we just have got the wrong comparator, and I say it's not just for judges but across the board, that we really ought to be talking about comparability outside of the for-profit sector and then that ought to be where we're looking.

Would that be acceptable, because clearly from a political standpoint of actually getting this pay to happen that would be a lot more compatible argument than to be saying that because someone in the federal government has a hundred thousand employees they should make the same as someone running a company with a hundred thousand employees, which is a bridge insofar that you never get across it, but I'd like to get your views on if we said give up comparability to the for-profit sector, concentrate on the non-profit sector as comparability?

PAUL VOLCKER: We'd better figure out some of the equivalent of stock options, but not to go into the budget.

FRANKLIN D. RAINES: We're getting rid of the stock options.

PAUL VOLCKER: Well, we've got to have a more imaginative one for the government.

JUDGE DEANELL REECE TACHA: If I may, I would just draw your attention to, I'm sorry you missed it but you have Justice Breyer's diagrams and they show both higher education and the CEOs of charitable institutions and that a very direct answer to your question is yes we think the non-profit sector might be a good comparator and yes the gap is pretty significant even there.

PAUL VOLCKER: Connie?

CONSTANCE HORNER: I'd like to ask the executive branch representatives a kind of global question. The great and the good over several decades have proposed reforms. Congress has accepted a very limited number of experiments. The experiments have by and large produced quite successful results where they have not been precluded, as in the NISTK—I forget, I think you said the NISTK from being completed. So there is a kind of what I would call public administration consensus that these additional flexibilities bear great promise for improved effectiveness.

And I know as someone who served in two administrations and I had my share of dead on arrival legislation, that this is the most likely outcome.

And so my question to you is, is there any reason to believe that our political culture, as manifest in the congressional response to executive branch proposals of this sort, gives any hope that we as a commission will be able to bring about any positive changes? Can we help the process substantially? Is there any change you see going on?

PAUL VOLCKER: The only possible answer to that question is yes.

CONSTANCE HORNER: What I'm looking for is hopeful evidence of opportunities or ideas you can give us about how to make the case that has been made unsuccessfully often in the past. I'd like to hear from Donna most of all, because you've been right inside it most recently.

PAUL VOLCKER: We are stealing time from our next panel, so I would urge brevity in both questions and answers at this point.

DONNA BEECHER: Well, clearly the use of the Civil Service Demonstration Project authority has given small or parts of agencies opportunities to demonstrate novel ideas, innovative approaches, and I will tell you from having been on the evaluation end of those, there are always unintended outcomes. You always learn something that you didn't expect to learn when you started the demonstration project.

But there is a need to find a mechanism to take the successful lessons learned and move them into the arena where all federal executive branch agencies can exercise that same discretion or that same authority. It's the translating of something that has been tested into the broader arena and even if the parameters of the civil service could just be clearly defined to embrace all of the flexibilities that have been proven in the different demonstration projects at IRS, at FAA, within parts of DOD, then the entire government would have access to these workable solutions.

CONNIE HORNER: So we could devise the mechanism in about 20 minutes. It's the political acceptance that's problematic.

May I say something to that? I think that we need to take advantage of the public support for public service as a result of 9/11. And I think we have to get the media, too, have to get the media engaged in communicating the relationship between things working and respecting the civil service and what it would take, because I think we've all tried to talk on a level about what demonstrations, what best practices. We've got to get the public engaged and we've got to get the media to understand the importance and the linkage between getting good public servants and having a nation that works.

KEN DUBERSTEIN: Just very briefly, listening to Connie Newman talking, the importance of an orientation both for political appointees as well as career civil service on each other I think it's absolutely fundamental and I would hope would be included in our recommendations.

Listening to the judge and also to Frank Raines, I never thought of the judiciary along the words of that song, The Little Engine that Could, but, in fact, I think a driving force has to be judicial salaries as far as improving the pay across the board for federal civil servants.

But I would just like to ask the judge a very innocent question, which is that since you didn't leave higher education obviously for the pay, why did you leave higher education for the federal service? Because of satisfaction, because of patriotism, because of making a difference? And what price tag do you put on that?

JUDGE DEANELL REECE TACHA: You know, that's what we're addressing here and I am with Commissioner Raines on this. I think it has some of the attributes of other non-profit service. I don't know that I think it's greatly different from higher education in that respect, except I will tell you that my old law school colleagues when I'm asked what's the difference between a circuit judge and a law school professor, I say it isn't hypothetical. And there is something to that because it is out there, as you so aptly put it, hoping to make a difference.

PAUL VOLCKER: Mr. Ravitch, do you have an urge?

RICHARD RAVITCH: I'll hold that, Mr. Chairman.

PAUL VOLCKER: I have an urge too but I will hold it. I just thank you and get to our other—

RICHARD RAVITCH: Can I make four quick points, very quick?

First, to commend Donna Beecher for the emphasis she placed on leadership. I hope the word leadership runs clear through the reports of this commission, the importance of men and women who understand the system and are prepared to apply it, apply it objectively, particularly in the search for effective performance on the job.

Also, Donna Beecher referred to her interest in the ranking person system of the foreign service of the United States, and there is a man in the audience I believe who knows that very well, and that is Bill Bachus. I think he is here and I intend to get you in contact with him after this meeting.

Third, Connie Newman emphasized her pain, the frustration that she felt in terms of the length of the confirmation process. The report of the earlier commission put a lot of emphasis on that and here we are umpteen years later and the problem is still there and longer, as we know, in the current administration, and I welcome the way in which you describe the problem, focusing particularly in the security check process with the FBI. And I don't know what the hell to do about that.

CONNIE NEWMAN: I'm glad I'm already there.

RICHARD RAVITCH: Finally, I think the earlier commission can take some satisfaction in hearing from Matt Crouch that one of the reasons he joined government, I guess, was the work of the Volcker Commission at that time.

Welcome aboard.

Thank you, Mr. Chairman.

PAUL VOLCKER: Thank you, all, and we will now hear from some of the people on the firing line, so to speak, or speak for the people on the firing line.

The good news is that you're here and we're eager to hear what you have to say and the bad news is you don't have much time.

CAROL BONOSARO: We'll talk fast.

PAUL VOLCKER: Particularly if we're going to get into some discussion, which I certainly hope we can. So I hope you not only talk fast but pointedly in all your speech.

We didn't have much of a chance earlier to get into the problem that I think Donna Beecher touched upon. I'm not sure she resolved it. She expressed her great love and respect for the civil service system and merit and uniformity, talked about the need for flexibility and I don't know how you combine those two things and maybe your comments will touch upon that. But many of them will start and why don't we just go through with the order you're sitting at the table. We'll start with you, Carol, the Senior Executives Association. You've been around a certain amount of experience in this area, so go ahead and tell us what we should know.

CAROL BONOSARO: Well, thank you for the opportunity to testify today and for your commitment to public service. And my testimony is, of course, limited to broad issues affecting the current executive service, beginning with pay compression, you'll be surprised to hear, which has reached such critical proportions that it truly threatens to destroy the Senior Executive Service.

After being frozen five of the last nine years, the pay cap has filtered down through the ranks and now almost 70 percent of all career executives are receiving exactly the same pay. ES-4, 5 and 6, the top three ranks are capped at executive level three in all 32 localities and even ES-3 joins them in 15 localities.

This situation would be unthinkable in any private sector corporation but it's been tolerated by both the administration and Congress as you know.

Few have expressed support for the Warner and Davis bills, which would simply raise the statutory cap for the SES. We believe there are a number of barriers to addressing pay compression, at least with regard to the Executive Service. First, the problem as viewed by some, is overblown because career executives are not retiring in record numbers. And while that's true, many do plan to retire as soon as they're eligible, because they are demoralized by the failure to address pay, they can't continue to resist attractive offers from private industry and they know they'll see greater increases in their annuities than they have in their past.

With 70 percent of the core projected to be eligible to retire in the next two years and with critical challenges facing the government, we think we can't afford to wait until the ranks of the career core are depleted before we address the pay problem. And that's a dangerous game to play, because it's now affecting the 14s and 15s who could be expected to take their place.

Some have viewed the cost of resolving this problem as inhibiting, but CBO has estimated or stated the first year cost of implementing new pay caps as \$24 million, which is hardly a prohibitive price to pay.

Third, some have viewed resolution of pay compression as premised on the overstated pay gap with private industry. We contracted with Pay Group for four years to compare compensation of a representative sample of SES positions to that of their counterparts in the wide variety of private sector companies and some non-profits.

The 1996 study showed that average SES total cash compensation ranged for jobs of the very same difficulty, I want to emphasize, ranged from 42 to 68 percent of that of their counterparts in private industry and would have to be increased by a range of from 46 to 137 percent to attain comparability, and that was in 1996.

Those were head to head comparisons and I think they're not open to criticism. And while we're not arguing for comparability they do demonstrate that the cost of public service has become unreasonable.

Fourth, raising the statutory maximum has been viewed by some as providing inappropriate across the board increases in contrast to pay for performance, but SES is a pay for performance system, which gives agencies flexibility and discretion to use performance results to adjust pay and to reward or penalize executives as appropriate. An executive's performance can be rewarded by increasing his or her pay rank, paying an annual bonus and by rewarding at the presidential ranks.

But agencies are also free to reduce an executive by one pay rank each year and they have virtually unfettered discretion to remove non-performing executives since performance appraisals are not appealable.

If the pay for performance nature of the SES has not been fully realized, then those who supervise executives simply do not use the tools at their disposal. Nothing precludes them from doing so and nothing precludes the president from distributing a raise in the statutory ceiling for SES pay across the ranks in any way he sees fit.

Fifth, some view the tie with congressional pay as an insurmountable barrier, but both Warner and Davis bills do not break the link but continue to set SES pay ceilings in relation to the executive schedule.

Sixth, some support resolving compression on an agency or occupational basis. We oppose those solutions because they continue a piecemeal attack, which does nothing to address the government wide pay problem, which is most severe in the SES ranks. Those authorities, special pay authorities are sometimes justified by the need to bring in talent from outside government and we're baffled by schemes, which would continue to drive experienced, talented executives out of government by refusing to address pay compression while recruiting higher paid executives from outside government. We're also baffled by proposals to remove from the SES executives with technical or professional skills while other special pay proposals would reward exactly those executives, provided they're recruited from the private sector.

So we must decide are we going to continue to respond to the pay crisis agency by agency, occupation by occupation, running from one fire to another, or are we going to provide an overall structure within which we can provide the compensation necessary to attract and retain the talented experience we need. Some have concluded that the failure to address and end pay compression has reflected a desire to hasten retirements and clean out the executive core. Irrespective, the failure to address compression, coupled with the desire for flexibility and an each-agency-for-itself mentality is splintering what was once a government wide Senior Executive Service.

There is a proliferation of systems now, which inhibits effective oversight and management of the career executive core, which should be a government wide human resource and is inhibiting opportunities for executives to move between agencies as they are restrained by the different systems often operated by each, so the value of a government wide core is being lost without any conscious decision to do so. Few would disagree that the SES has not met its original full promise, but the question not being addressed is whether that's so because the design of the SES and its statute were inherently flawed or because the SES as envisioned has never been fully implemented.

There is a proclivity I think in these days to look to change the system rather than to consider whether the system can, in fact, accommodate the needs of government today. Much flexibility exists in the SES system, whether for mobility and reassignment, performance management or other concerns. Agencies don't fully utilize those and many other flexibilities, which exist in the federal service, either due to lack of money, lack of knowledge or conscious choice.

One issue in particular has arisen over and over, and that is whether the SES was intended to be a core or a super core of generalists. We believe that leadership is seldom if ever content free and that executive responsibilities are not and should not be defined simply as large-scale managerial responsibilities. And that view enables government flexibility to utilize executives where they're needed most.

But concerns regarding the appropriate place for specific executives can be dealt with right now, for example, by using senior level positions as a track for those with few managerial but very high-level professional responsibilities. We support a concept originally proposed by OPM, a senior civil service to encompass the many disparate executive systems, which exist now, and to enable a government wide context for exercising oversight and developing appropriate policies for those systems.

In conclusion, SEA would urge you to support legislation to end this severe pay compression in the executive ranks and resist solutions, which would hold pay hostage to other proposals, however well intentioned, to reaffirm the value of a government wide executive core and oppose further fragmentation, to recognize the full nature of executive responsibilities, which can be accommodated appropriately within the SES and an umbrella service, call for the reduction of the excessive layers of political appointees, which often prevent effective career political teams by placing more and more distance between career executives and agency leadership and by moving appointees into what were formerly career positions and functions.

Finally, in considering any recommendation for changes to the SES we would hope you would require a clear articulation of current and anticipated demands, which can't be met within the existing systems and how those changes would meet those demands, and that you would retain the principles and core values, which were detailed in my written testimony.

In conclusion, the 1978 statute creating the SES represented a vision, a coherent system of carefully balanced risks and rewards with advantages to both government and career executives. The fact that not all features of the SES may have been utilized to their full advantage may not be justification for throwing the baby out with the bathwater but rather to serve as a impetus for a renewed effort to meet the full promise of the SES as it was originally envisioned, and we think that original vision, if reexamined, will sound suspiciously like many of today's conversations, which are directed at supporting the need for change.

Thank you.

PAUL VOLCKER: Thank you.

If I may make a modest suggestion to the remaining panelists, to the degree you feel it necessary to make a plea for higher pay for the senior people, I think that case has been made, carried over from the judiciary and just made by Carol, so maybe that part can save a little time and space.

Ms. Kelley.

COLLEEN KELLEY: Thank you. As the national president of the National Treasury Employees Union, we represent over 150,000 federal employees in 25 agencies, and I want to thank you for the opportunity to present our views on issues that need to be addressed on behalf of federal employees across the country.

The fact is we all share the same goals: We want the federal government to be the employer of choice, to create an environment where the employees who are here, who are dedicated and committed, want to stay, and where we are able to hire those who are looking to enter federal service.

And 12 years ago, after the first Volcker Commission issued its groundbreaking report, we find ourselves unfortunately still needing to address many, if not all of those same issues.

The administration's proposal to create a new department of homeland security is an excellent case in point. The administration's proposal seeks to consolidate 170,000 federal employees from 25 agencies into a new department without providing any additional resources to do this.

The administration's original bill also seeks to provide the head of the new agency with the authority to set and to change federal employee rights and benefits whenever he or she sees fit, and the threat of stripping these employees of their current rights, including whistleblower protection, access to federal retirement and health insurance and even the right to form unions or to collectively bargain with their union has sent shockwaves throughout the federal workforce.

Contrary to reassuring the nation's workforce in the federal sector, these proposals have helped to exacerbate the problems that the government is facing in attracting and retaining employees.

During the House Government Reform Committee consideration of the homeland security proposal last week, that committee affirmatively voted to retain these rights and benefits for the federal employee who will be transferred to the new agency.

As NTEU has pointed out to the administration and to Congress, federal employees have been fighting the war against terrorism before, during and after September 11th. They have been fighting to protect all of our rights and freedoms and they should not have theirs threatened or taken away from them.

As the members of this body know, much of the work of the federal government and its employees has not been appropriately valued or rewarded in recent years, and much of this comes down to resources. One of the original Volcker Commission recommendations was, and I quote, "the gap between what government and the private sector pays has grown far beyond the point where government can hope to recruit and retain qualified staff." As we all know, that gap has continued to grow.

In large measure, an act named FEPCA, the Federal Employees Pay Comparability Act, sprung from the Volcker Commission recommendations and FEPCA represented a fundamental change in how federal pay would be set. Unfortunately, FEPCA has failed, and along with it our hope that federal pay would be aligned without regard to partisan politics.

Now, the reason FEPCA has failed in NTEU's view, is primarily because of a lack of resources. There have been a lot of reports about the methodology being criticized in the use of determining the gap in FEPCA, but the fact is FEPCA has not failed because of the methodology; it's failed because the resources that are necessary to fund the pay increases that it called for were never forthcoming, they were never made available to the agencies.

Federal agencies continue to be in a contest with state and local governments and with private sector employers for the best employees to hire. In spite of this, the president's '03 budget proposed a 4.1 percent pay raise for the

military, which NTEU fully supports, but it also proposed a civilian pay raise of only 2.6 percent next year. This is not a proposal the administration would make if it were serious about addressing the issues around human capital. NTEU is very grateful that both the House and the Senate Appropriations Committees have endorsed a 4.1 percent pay raise for the nation's civilian workforce, but this is not the way it should have to happen.

And despite all these facts and the influence that we all know that salary has on a prospective employee's decision as to whether or not to accept a job, the legislation pending on Capitol Hill today on the human capital crisis is silent on the issue of pay, absolutely silent.

Another key component, of course, of the federal compensation package that needs reform is the Federal Employees Health Benefits Program. There was a time this was seen as the premier health insurance plan in the country. That is not true today. Premiums for coverage under the FEHBP have been put out of reach for many employees. The program has become prohibitively expensive for current employees and unattractive to prospective employees. In 2002 FEHBP premiums increased 13 percent. That followed increases of 10.5 percent and 9.3 percent the prior years. Over the last five years premiums for the most popular FEHBP plan, which is the Blue Cross standard option family coverage, has increased by 60 percent, 6-0, while during that same period federal salaries increased an average of about 18 percent.

Legislation is currently pending before both the House and the Senate to increase the employer share of the FEHBP premiums from the current 72 percent to what is a more standard average in the industry of 80 percent coverage. These bills would represent modest steps towards addressing the human capital crisis, yet despite the importance of this issue to current and prospective employees, the human capital proposal before Congress today failed to address this issue.

And while pay and benefits are surely not the only factors, they are often the most important. Employees also though want to take advantage of the opportunity to perform important and challenging work for our government and the fact is the government continues to fail at this challenge also.

The original Volcker Commission again noted that the government must invest more in its development programs to ensure that proper training is available. Thirteen years later these challenges are still waiting to be addressed. When agencies are faced with inadequate funding levels, inadequate budgets, the first thing that is cut is training. It happens throughout agencies throughout the government, and the end result, of course, is that employees do not receive the proper training to perform their mission, to increase their skills so that they can do even a better job, and to keep their skills on a cutting edge level, which is where we all need and want them to be as federal employees. Another issue that continues to erode the morale of the federal workforce is the administration's blind targets for contracting out the work of the federal government. OMB has imposed arbitrary quotas on every federal agency, directing them to open up at least 15 percent of all of the commercial jobs on the FAIR list to the private contractors by the end of '03, with an ultimate goal of 50 percent of the jobs, which means 425,000 federal jobs are being directed to be put out for competitive sourcing.

Now, this move comes in spite of the fact that agencies are still unable to determine whether or not it saves the taxpayers money or improves the delivery of government services to do this.

For example, last summer we learned that Melon Bank, a contractor hired by the IRS, had lost, shredded and removed 70,000 taxpayer documents and over \$1.2 billion in checks written to the IRS. Now, if agencies had better tracking systems and more contract oversight staff then the losses to the taxpayers that resulted from this would have been caught much sooner and would have been much smaller, but despite the lack of the oversight of the contractors, OMB continues to force agencies to comply with these quotas.

I was a member of the Commercial Activities Panel that met for over a year and that was put in place by legislation. Even though that panel was split on most of the recommendations in our final report, the entire panel agreed, everyone supported a set of ten principles. One of those guiding principles that everyone agreed on was, and I quote, "avoid arbitrary full-time equivalents or other arbitrary numerical goals." I was very surprised but pleased that OMB, who was a member of the Commercial Activities Panel, supported that principle.

In spite of that and in spite of their agreement on the principles, enforcement of those quotas today continues in agencies throughout the government and beyond the outsourcing quotas do not allow for any flexibility for the individual circumstances of an agency, and to date the administration has not articulated any justification for how they came up with 15 percent by '03 or the 50 percent or 425,000 jobs.

Where is the data that shows that these randomly chosen numbers for outsourcing will improve operations? Where is the justification for why OMB has imposed the 15 percent and 50 percent quotas for the agencies, for agencies like the IRS who is in the middle of a sweeping reorganization, almost mandated by Congress, which was aimed at better serving the American taxpayers or an agency like the US Customs Service, who has been working under heightened level one alert since the tragedies of September 11th?

These quotas are threatening to drive many civilian agencies to simply convert work to the private sector without conducting public/private competition. Due to a lack of experience in this competitions, agencies are hiring contractors to run the private/public competition to do the competitive sourcing that's been ordered by OMB. So the bottom line is that this also impacts potential employees of the federal government. Why would anyone come to work for the federal government knowing that their job is or could be on this targeted list of 425,000 jobs? Whether you support having federal employees do the work of the federal government or not, I would hope we can all agree that agencies should have the discretion to determine how best to balance their workloads with their budgets and I ask this commission to call on OMB to issue a directive abolishing the competitive sourcing quotas immediately. Instead of rushing out to contract out more government work, we should be funding the agencies with the resources in order to provide staffing, technology and training for the employees who want to do the work of the federal government.

In conclusion, I have touched on the issues of inadequate pay and benefits, blind contracting, the inadequate agency funding levels and the failure of the agencies to maintain and put in place the training programs needed. We need all of these things to retain the highly qualified employees we have today and to have any chance of recruiting the caliber of federal employees we need in the future.

So NTEU is looking forward to working with this commission to put the federal government on the path to resolving these critical matters and I would suggest that we cannot afford to let any more time pass to make that happen.

Thank you.

PAUL VOLCKER: Mr. Perkinson.

(Break for tape change.)

DARRYL PERKINSON: Civil service reform is still needed to increase the efficiency of the federal government. With the federal government facing its human capital crisis today, federal managers must have the flexibility to use not only existing resources but to discover new resources to recruit talent while we prevent the imminent brain drain that will occur with the retirement of so many civil servants.

Federal managers and supervisors want our government to work the best it can for the American people. However, as the number of civilian employees continues to shrink, this task is becoming increasingly difficult.

Today's federal workforce is facing a human capital crisis that threatens its ability to carry out government services in the future and today.

At the Excellence in Government conference that I have attended this week on Monday and Tuesday it was repeated time and time again that very few graduating college seniors view the public sector as a desirable employment option. At the same time, federal hiring practices lengthen the process to the point of deterrence. College seniors, it was pointed out at this conference, are looking for two week to four-week turnarounds in answers to whether they can be employed. The average for federal public service is 144 days. That is a deterrent.

Furthermore, current practices make federal employment an impractical option for mid career professionals, and to make matters worse federal sector salaries continue to lag behind those of the private sector.

Recruitment and retention incentives such as the signing bonuses, increased training budgets and education reimbursement should be implemented more effectively throughout the federal government. Some agencies have begun offering repayment of student loans. FMA would like to see this benefit extended to those seeking graduate degrees as an additional recruitment and retention tool.

Oftentimes, however, agencies do not have the adequate funding for these incentives. Annual appropriations should include additional line items for recruitment and training. The public sector should mirror those organizations in the private sector who appreciate that the most valuable organizational asset is the workforce itself and they recognize that you get what you pay for.

It is also a widespread belief of those leaving government that insufficient opportunities exist for the growth in the public sector, which brings us to the problem of proper succession planning. We can't continue to experience difficulty attracting individuals to management positions. The notion of the career civil servant is becoming more and more obsolete because there are few incentives for advancement in federal government. This, combined with higher salaries and benefit packages in the private sector, are causing many federal employees to leave the public sector after only a few years. In fact, there are often times where disincentives are in place for moving up the career ladder. A vivid illustration of this is the current statute, which caps overtime pay for federal managers and supervisors, resulting in their making less on overtime than the employees they supervise. More specifically, managers have been capped at a GS 10 step 1 level when working overtime since 1966.

Employees should be afforded the means to continuously enhance their skills. Individual development plans should be devised to maximize each employee's potential. Agencies and departments should increase opportunities for employees to receive training in their respective fields while on duty by specifically allocating funds for this training. Thus FMA supports establishing management succession programs to ensure that we have the strongest possible pool of managers to lead tomorrow's civil service.

Compounding the myriad of problems associated with recruitment and retention of federal employees is the significant pay gap, as was expressed in the previous colleague's remarks. FEPCA was intended to close the gap between federal employees' salaries and those of their private counterparts. However, it has never been implemented as it was originally designed.

More than a decade later, the Bureau of Labor Statistics shows pay gaps between federal civil service employees and their private sector counterparts has grown to 32 percent. There is the debate. It is a debate on what that gap is, but there is a gap.

The number of managerial positions in the federal sector has already been reduced significantly over the past decade, as we have witnessed arbitrary reductions without mission analysis, served to undermine the efficiency and the cost effectiveness of government. It is imperative that an analysis of core missions of agencies be conducted to determine the most efficient organization and ensure that essential skills are retained in the federal workforce. Contracting out can threaten the ability of federal agencies to fulfill their core mission. Our concern is the perception that the private sector always outperforms the public sector, which is patently false. We desire true competition for services that are not intrinsically governmental, but for true competition we must have a level playing field. We at FMA understand the administration's position that competition is the best way to find efficiency. However, we have concerns about the use of arbitrary targets such as 5 and 10 percent when attempting to achieve the most efficient organization across government.

The term "inherently governmental" as defined by the FAIR Act has never been clear and it continues to be skewed for the benefit of one side or the other. What should be asked is whether or not the function is inline with the agency's mission.

We at FMA are pleased with the direction the administration as well as Congress has taken in seeking to address the inefficiencies that currently exist within the framework of the federal government. FMA supports many provisions of the Civil Service Reform Legislation currently being discussed in Congress, specifically those proposals sponsored by Senators Voinovich and Akaka. The FMA has long served as a sounding board for the legislative and executive branches in an effort to ensure that policy decisions are made rationally and provide the best value for the America taxpayer, while recognizing the importance and value of a top notch civil service for the future.

I want to thank you again, Chairman Volcker, for providing FMA an opportunity to present our views. We at FMA look forward to working with the administration as well as Congress and this commission to deal with our government's workforce challenges in our mutual pursuit of excellence in public service.

This concludes my remarks and I would be happy to answer any questions you may have.

PAUL VOLCKER: Thank you, sir.

Mr. Roth.

MARK ROTH: I am Mark Roth. I am general counsel of the American Federation of Government Employees. Let me thank the commission for this opportunity to speak on what is the well-known crisis in the federal service and give AFGE's take on that.

AFGE represents approximately 600,000 federal employees in roughly 40 agencies throughout government. Many of you have headed some of those agencies and you know us quite well. Our diversity is unmatched, as we represent groups such as border patrol agents, corrections officers, scientists, doctors, professional employees, non-appropriated fund workers, blue collar workers, canteen workers and literally hundreds of other types of workers in the 50 states, U.S. territories and Europe.

At our own focus groups, town home meetings and conventions we consistently hear from our officers, activists and members that they feel they are regularly placed under attack by government politicians. At the same time, they acknowledge that it is consistently harder to perform their jobs that seem to expand in statutory responsibilities but with fewer employees and less resources.

Furthermore, they see a growing and disturbing shadow workforce of contractor employees often working side by side with them who do not have the same commitment to government service and who are not subject to the same restrictive labor laws or Hatch Act.

Our members tell us that they desperately want to make a difference in their jobs and provide efficient and effective service to the public, but lately, more than ever, they have less of a say over how the work can best be done and they are frustrated. I think Professor White's study has documented that.

That there is a human capital crisis in the federal service cannot be denied. However, in our view it is very much a self-inflicted wound and the solutions currently being proposed to fix the crisis are ill advised, insufficient and often inconsistent.

AFGE views the human capital crisis as being a result of three specific policies, and I don't mean to insult anyone in previous administrations or the current but one is the untargeted, directionalist downsizing of the Clinton era, the privatization at any cost frenzy of both the Clinton and Bush administrations and, as my colleagues have said and a bit of an echo here, just the adamant refusal to adhere to the Federal Employees Pay Comparability Act.

Taken together, these three policies have left agencies without adequate staff, without direct control over far too many of their core functions and without the ability to pay the existing and prospective federal workforce adequate salaries.

President Kelley discussed the pay issue as it relates to frontline workers. We very much share the same position. We were consistently advised by the Clinton administration that the pay methodology was somehow faulty and the lag between federal salaries and their private sector counterparts was really only between 12 and 14 percent and not the 22 percent we cite.

As President Kelly will probably remember, our response, met by a resounding silence, was fine, increase pay by the 14 percent lag you agree with and then let's haggle about the rest.

The large and growing gaps between the pay and benefits provided to employees of large private sector firms and also unionized state and local government employees on the one hand and federal employees on the other is not a mere detail. A decade after the bipartisan federal pay law was signed by the elder President Bush federal salaries

still lag behind the private sector by approximately 22 percent. Currently, 13 years after the Congressional Research Service study on the insurance program, Federal Employees Health Benefit Program, stating then that it was inferior by a large margin, it's even worse now, as President Kelley explained.

There is no excuse for this. There is no fiscal excuse. There is no excuse concerning the data and no excuse for unions who are intransigent and unwilling to negotiate even partial solutions.

I can just give you one example that I think Ms. Horner talked about pay banding or someone did. We spent a year negotiating a pay banding system, I think it was with the NavSea command. We had an excellent system that we thought we could sell employees. It was objective, it had good criteria and good movements, but it was going to cost money because people were going to move up and we were told at the end of all this work that it had to be budget neutral and that, of course, killed it and, of course, the unions killed it.

We have pleaded with every Congress and two administrations to address the compensation gaps. All we hear is a deafening silence and now cockeyed proposals like the Freedom to Manage Act, which calls for unrestricted and undefined flexibilities and exemptions from civil service rules without any specifics or any additional funding stream.

Rather than face reality and make the hard decisions on pay and benefits, we're continually confronted by an undefined call for management pay flexibility, piecemeal proposals on retention and recruitment bonuses, broadbanding systems and vague pay for performance notions, but the truth is most of these bonus and award authorities already exist but agencies are not using them for two very simple reasons. Number one, they're not funded. They can't afford them. And also performance evaluation systems are so subjective and out of whack that neither managers nor employees have any confidence in basing pay on them.

AFGE is not against bonuses that come from additional funding streams and that are based on objective performance criteria. In partnership we actually negotiated some of these. Without partnership there is no legal requirement to bring us to the table and we can't sell these to employees.

However, I don't think we can pretend that bonuses, scattershot bonuses and salary adjustments are a long-range answer. The government's crisis is that it's on the verge of losing its workforce to retirement, privatization and more lucrative offers in state and local government and the private sector. When the workforce leaves it takes with it institutional knowledge, skill, experience and the public sector ethos of devotion to the common good. Scattershot, subjective bonuses will not solve such a problem, as the previous panel members said. It's only going to cause lowered morale because no one can figure out why one person got a bonus under the current system and one didn't. I have to hit the OMB quotas on privatization. They are absolutely insane and counterproductive. On the one hand—they weren't started by our esteemed panel member here.

KEN DUBERSTEIN: I'll put you down as undecided, right?

MARK ROTH: I feel very strongly that at the same time you're offering recruitment and retention bonuses to people you're also then having quotas that are insisting that up to half of them go out the door. What kind of a message is that to a prospective federal employee, an applicant or a current federal employee?

And right now they can only meet those quotas without competition and that's what's happening. In DOD and other agencies they're doing it by direct conversion. This will be a disaster to the federal service.

AFGE does not oppose competitive sourcing. Our position is that federal agencies should be permitted to contract out commercial work but only if it can be shown through public/private competition to be less costly to taxpayers than continued in-house performance.

Only through the public/private competition can taxpayers learn whether it's in their interest to have the work stay in house that's commercial in nature or be contracted out. Right now there's no data on the private sector phantom workforce, but yet you can tell by pay, classification and by number every federal employee. Significantly, recently federal employees have improved performance to the point where they are winning approximately 60 percent of A-76 competition. So without this ability to compete we will be less efficient as the work goes out the door.

And as I said, the Competitive Sourcing Initiative and the human capital crisis are sides of the same coin. It's a self-inflicted wound. The message we're giving to the federal employee is the government doesn't want you, it doesn't think it should employ you, it's trying to find a contractor to take you off its employment roles.

I think your committee has to get into why do we have these quotas of up to 50 percent of the commercial work just being given to the private sector over the next four years.

We don't want to be viewed as simply castigating the Bush administration because as I said the crisis began with untargeted wrong sizing by the Clinton administration, during which individuals in critical positions received monetary incentives to leave government or retire early, while folks in duplicative overhead positions chose to stay. Look at the example of the postal service. Everyone in critical positions that was close to retirement took the incentive and left them with a depleted workforce and they had to do more hiring and it totally screwed them up. These wrong sizing efforts were further complicated by FTE ceilings restricting agencies from replacing separated employees with new hires. These actions were taken over our vehement objections. You cannot restructure the workforce to take a highly graded employee, give them an incentive when they leave and then say you can't replace them with two new younger people at lower salaries. But yet these FTE ceilings are still in effect. You need OMB approval, and that's a lot of the hiring process way. You need OMB approval to go and replace a worker in many cases.

Let me just say that our solutions are S-1152, the Truthfulness, Responsibility, Accountability and Contracting Act, called TRACT. It's very easy to look it up.

S-1982, Senator Mikulski's bill to improve the funding formula for FEHBP to 80 percent paid by the employer and 20 percent by the enrollee to more closely resemble the financing by large private and public employers. Three, of course full implementation of FEPCA. There's no way around it. Everything else is biting at the margin. And finally, fourth, a restoration of labor-management partnerships. They didn't work in every agency but in a vast and overwhelming number of agencies, labor and management did work together cooperatively in the '90s to make federal agencies even more efficient, effective and reliable. We have a very interesting constituency. Now they're very interested more than ever in pay because it's so bad but for a number of years it wasn't pay that was the dominant issue; it was making a difference. They were not being able to do their jobs to their satisfaction and we have a positive tract record on partnership in the VA, the mint, social security, DOD and other agencies. It's proven and beyond dispute. We save hundreds of millions of dollars.

In closing, I want to commend the commission for taking the issue of the human capital crisis and employee morale so seriously and we look forward to working with you to craft salable solutions that will work.

PAUL VOLCKER: Is it possible, Mr. Raines, that the solution to all these problems is taking the M out of OMB?

FRANKLIN D. RAINES: It might add something to OMB. I actually had a question on that, which is having gone through these discussions in two different administrations, separated by 20 years, the exact same discussion, the exact same arguments, exact same studies, exact same problems, newer people, why is it that there is absolutely no political force for any part of the agenda you just laid out? Whether it's a Democratic administration, whether it's a Republican administration, never in my time when I was at OMB as associate director or as director did anyone other than the direct representative of the employees come in and say, "I support that agenda; do something." And remember in that office, and you're right, the money is not a budget breaker. This is not something where you look and you say there's no conceivable—I've put money against far worse things than what you've proposed, but there's absolutely no consequence of having done something. No one was coming and saying, "Frank, this should be the priority." I mean, no one. No one inside the White House. A couple people on the Hill, Steny Hoyer being the strongest consistent advocate over a lifetime, but that's ultimately the big question here. No matter what we recommend, unless there's somebody who is going to say to members of Congress this should be a priority, we've got nothing.

So I'd like to get that. You're very articulate on it. You've been persistent on it. You've been consistent on it. There's no deficiency in your argument. Why is it that there's no force?

CAROL BONSAARO: I think in part, and just let me take a stab off the top of my head, part of it is it's good enough for government work mentality, which I think the American public has paused after September 11th and now seems to be forgetting, that we think we can get things on the cheap.

I think it's also been due to the civil service retirements, but as you know as more and more employees get to that they are going to be voting with their feet.

I think there's not much of a political constituency, as you point out. I mean, federal employees here are concentrated in certain districts and that's for the members of Congress to pay attention and the rest don't worry about it.

I'm reminded of when we went through in '88 or whenever it was, '89, the Ethics Reform Act, and the only way we got through the major pay raise was there was an exchange. Congress gave up honoraria and we got a reasonable adjustment in place. But even then what was endured and what we went through and all the scaring the pants off of members because they thought it was so outrageous and very few people were willing—see, I think the American people can understand this by, for example, if you put—you had raised the issue of so many people out there in Middle America don't understand these big salaries, but I think if you put them to them in terms of where do you send your kids to college. Don't you hope for a better life for them? And if they had responsibilities like the deputy commissioner of the IRS or director of shipbuilding for the Navy, you would expect them to be compensated at some level appropriate to those responsibilities. But very few people have been willing to step up the plate and do that.

But that's just off the top of my head, but I'm sure my fellow panelists have other thoughts.

MARK ROTH: We have to put it on the table. The contractor money to politicians is unmatched. You can go on the government exec Web site and see the top 20 contractors and what they've given to politicians and we will never match that. What we have are people in grassroots, and actually when you look at everyone against us—I'm speaking for the labor organizations and I think also the other employee groups—we've done pretty well to battle off some pretty crazy schemes and proposals.

The other frankly is the revolving door. The people making the decisions, they're there for two and a half years and then they're gone. And you talk about well the salaries aren't high enough for political appointees. Well, that's true but then where do they go and what do they make? It's part of the same coin.

We could not even get a commitment to get a contractor inventory out of the Clinton administration. Why would anyone in their right minds not want to know who are the contractors, what are they charging and is it costing more, when ever nickel and dime on the federal employee's side is specifically tracked. You'd have to tell me why we couldn't get that from OMB, but I understand the politics of it is over all of our pay grades and that is contractor money, private sector money.

Some of the biggest defense industries now and employers in general, if you look at their Web sites, most of their contracts are with government. They have gone from private sector to government, and of course largely in this area it's even out of proportion here, way out of proportion here.

So that's my answer that I'm chomping for. Colleen?

COLLEEN KELLEY: I think part of it also is a revolving door issue from a little different direction is that when there are jobs posted for the federal government there's always someone who will apply for it, and then the government has to decide what it is, the caliber of employee that they want, is it just a body to fill a vacancy, and I think that the crisis that we're facing with so many eligible to retire and with so many now in FERS who literally are making that revolving door go a lot faster is something that I hope is going to have to change the dynamic of this. You know, when we talk about training costs being cut and there not being that kind of developmental money available, that is going to become more of a crisis if employees are only staying for three or four years because they're going to be in a constant learning mode and just about the time they're up to speed to do the job at the level they need to do it they're going to be leaving between FERS and not having the appropriate pay and benefits. But I guess what I have seen over the years is just an unwillingness to put the money on the table and it's simply time.

PAUL VOLCKER: I do hear this argument all the time that you referred to that you can complain all you want; well, a lot of people want those jobs. And we would like to say the answer is they're not very competent people but how do you measure this and what evidence is there. I don't know.

COLLEEN KELLEY: I wouldn't even say they're not competent but if the government wants to be the employer of choice, which I think our country needs and wants it to be, then there has to be a determination made to make an investment in that and there's just never been a willingness to do that.

PAUL VOLCKER: I am in a position where I am committed to listening to you all morning, make a speech myself, which is going to limit my time anyway and I suppose limit everybody's time, but I think a lot of you are just repeating something I said, and I think we haven't got time to solve it here. But this tension between providing the flexibility that managers need and then employees to benefit from them and providing some protections and uniformity and consistency seems to me very real. I don't know how we solve it, but the sense is we need some rebalancing and we're getting it de facto in a kind of confused way, because people are opting out of the system and getting out of the system and how we deal with that problem seems to me rather central to our efforts. If nobody else has anything—

CONNIE HORNER: Just thank you very much. It's kind of ear-opening.

COLLEEN KELLEY: Thank you for the opportunity.

PAUL VOLCKER: I guess we're ready to begin. Is everything operating?

We have a very impressive group down there. We'd make a hell of a baseball team. We figured we could—touch football was next. (Laughter.)

They are more impressive than up here is why you rearranged the chairs to put them down here. I wanted to have the great privilege of sitting up here and addressing the chief justice of the United States down there. (Laughter.) But we put him up here instead, so I never got that opportunity.

UNIDENTIFIED: You know, we'll—I would still expect you to be looking down on him, though.

PAUL VOLCKER: Yeah, right. Not by much. (Laughter.)

I do, on behalf of all of us, appreciate your being here. You are people all out there laboring in the vineyards that we count on for inspiration, ideas, implementation, and we're just delighted that you're here this afternoon. And if I could find my instructions, I would tell you in which order to go. Maybe it doesn't make any difference.

(Cross talk.)

Oh, yes, I'm sorry. I'm supposed to turn to Paul, who has arranged all this. I was depriving him of his function.

PAUL LIGHT: No, I—you know, it's just—

PAUL VOLCKER: Mr. Light, would you please take command here and introduce your associates.

PAUL LIGHT: Well, I—I just wanted to introduce the panel here because we have drawn so heavily upon the research of other organizations in our work, in preparing our memoranda for the commission and so forth. To my immediate left is G. Calvin Mackenzie, who prefers to go by the name Cal Mackenzie, who has been the driver behind our presidential appointee initiative—much of the research there—along with the deputy director of the Center for Public Service, Judy Labiner. I don't know whether Judy is here or not back in the back of the room. Much of our survey work of presidential appointees, much of our analysis done by Cal, Judy and Michael Hafken, who runs the tracker that tells us where appointees are in the process and told us, for example, that we just had the longest drought in recent history in Senate confirmations—38 straight days of Senate session without a single confirmation, and that's the longest drought since 1989 by our count.

I don't know whether there was such a long drought while you were there, Commissioner Duberstein. (Laughter.) But there must have been some long ones.

KENNETH DUBERSTEIN: (Inaudible)—1989, it was '88.

PAUL LIGHT: I know. (Laughter.) I'm saying that, you know, we didn't go back to the Reagan administration.

KEN DUBERSTEIN: Who would not let that happen.

PAUL LIGHT: Right next to Cal is Steve Kelman, who is at the Kennedy School of Government. He has a distinguished chair, and also has a distinguished career in public service himself. I consider Steve's work, as director of the Office of Federal Procurement Policy, to be the most important work that was done under Reinventing Government. It really left a statutory mark and did improve the performance of the federal government. And that's not to damn others with an error of omission, but Steve really made a difference through his work.

To his immediate left is Susan Hosek from the RAND Corporation. RAND has done more high-quality research on public service than any institution in the world. They have more institutional knowledge and capacity on the questions we have before the commission than any institution in the world. I don't know whether it all resides in Sue, but I think Sue can answer many of the questions that we may have.

In theory, with Max Stier, down at the Partnership for Public Service, we will be able to say that about his organization. He's the president/CEO of the newly created Partnership for Public Service. I think they've been in business maybe a year—a little over a year, would that be, and that made an obvious and important contribution to public service, most recently by building a coalition of college and university presidents to spearhead and push forward on interest in public service careers among college seniors.

To his immediate left is Pat McGinnis, with whom I've been associated for a good long time, and I suspect you all have had an intersection with Pat and the Council at one time or another—a dedicated and deeply respectful enterprise toward public service, has moved public service to its—top of its agenda along with eGovernment, and their two other priorities, I think, that Pat may remind me about—as a board member, I should know them by heart. And to her left is Bob O'Neill, president of the National Academy for Public Administration, a membership organization, a research organization, has done a tremendous amount of research on federal civil service, public service issues. Bob is going to be leaving shortly to assume the executive directorship or presidency of the International City Managers Association, where he'll have even greater impact, although I think NAPA is the great organization, and I think he is going to be sorely missed at NAPA, and has put together here, for this commission, a panel to look at what NAPA knows about public service.

I think we'll just go from—in the direction of the end of the table here. I've asked everybody to stick to ten minutes as best they can so that you can ask questions. It's your call as to whether you want to interrupt along the way or just go straight through the presentations.

Let's start with Cal, and I'll —

PAUL VOLCKER: You know, I think maybe we ought to interrupt—I mean, not interrupt during a presentation but after one because otherwise we'll forget what the —

PAUL LIGHT: Okay.

PAUL VOLCKER:—first one—but briefly, I—we will reserve—have pointed comments or questions, but more general questions reserved, please.

Cal?

G. CALVIN MACKENZIE: Mr. Chairman, the presidential appointments process is a mess—(laughter)—a fact well known, I'm sure, to all of you. Over the past four decades, we Americans have allowed this act of American

political genius, this creation of this notion that we could run our country by having distinguished private citizens come and go, one that served us well for a long time.

We've allowed that to fall into a desperate state of disrepair, and now the process undermines the very purposes it is designed to serve. It doesn't welcome talented leaders; it more often repels them. It doesn't smooth the transition for them from private to public sector; it turns that into a torture chamber. It doesn't speed up the start-up of new administrations just elected by the American people; it slows it almost to a standstill.

Let me briefly identify the most troublesome aspects of this process that the research of PAI has identified and quickly sum up some of our recommendations for fixing it. First, there are too many presidential appointees, far more than ever before in history. In the cabinet departments alone, which represent only a small portion of presidential appointees, the numbers of appointees in the top five positions in those departments grew from around 200 at the time of the Kennedy inauguration in 1961 to almost 800 today. The layers of political appointments in every department and agency are constantly multiplying, and every reform commission that has looked at this question over the years, including the first National Commission on the Public Service, has recommended a significant reduction in the number of presidential appointees.

Second, the entry process for presidential appointees is now an endless obstacle course composed of forms and questionnaires, vetting and investigation, and intense political crossfire. Let me offer just a few examples of what an appointee has to go through these days. According to our analysis, the typical appointee today must complete forms and questionnaires that include 233 discrete questions covering everything from the date of birth of one's in-laws to one's own psychological counseling histories to the list of every article one has ever written and every speech one has ever given. Every presidential appointee today, and overall in our government today, 225,000 government employees are required to make annual disclosure of their personal finances. For president appointees, the requirement is for public disclosure, yet these disclosure reports, which often take many hours to complete and often require the assistance of attorneys and accountants, are rarely viewed by anyone outside of the White House or the Government Ethic Office.

Our study found that in the years from 1995 through 2000, 99.3 percent of all the public financial disclosure forms filed in those years were never viewed by anybody in the public. And when one goes down and looks at the confidential disclosure forms that other government employees file in their agencies, we found very little evidence that anybody gives those more than a cursory glance.

PAUL VOLCKER: Other than the press.

G. CALVIN MACKENZIE: Other than the press, but they can't look at those, of course. The public ones—but even with—even with the public ones, a very small percentage of them are looked at by anybody, and when we looked at the ones that were looked at, not surprisingly we found that those tended to be the wealthiest people in government and that the purpose of the inquiry was not to determine whether people are ethical or not—ethical—those questions rarely came up—but rather what the nature of their wealth was and to report on that. You may have seen the front-page story in USA Today last week reporting on the finances of Alan Greenspan and his wife, who—Andrea Mitchell, whose finances are known because under the law you are required to file your spouse's finances as well.

The disclosure report that was requested the most times between 1995 and 2000 was Robert Rubin's. It was requested 38 times. None of those requests, as far as we could determine, inspired by or producing any evidence of ethical impropriety.

And then when we looked at the disclosure requests for 2001, the first year of Bush appointments, we found that more than 700 of the requests in that year came from the Democratic National Committee and from labor unions. We suspect that ethical inquiries were not part of that inquiry, either. So public financial disclosure—whatever the good intentions that inspired it—has become one of the great empty rituals of American public life. The FBI full field investigation—as you may know, it began in 1953 by executive order from President Eisenhower, designed to assure the country that their presidential-appointed leaders were not security risks. Since then, the FBI full field investigation has grown to cover every single presidential appointment, domestic as well as international, part-time as well as full-time, and to cover an array of topics that were never covered in the early years of those full-

field investigations. As a consequence, the full field investigation, which used to be completed in about two weeks, now takes on average 44 days to complete for every presidential appointee. Last summer, for example, when terrorists were plotting the worst assault on the United States since World War II, scores of FBI field agents were spending their time investigating the backgrounds of some of America's most distinguished public servants whose only crime was that they had agreed to serve in the new presidential administration.

Over the past 40 years, we've constructed an ethics regulatory policy in this country for government officials that is without precedent in human history. No other government spends so much time and so many resources questioning and investigating its own leaders, trying constantly to scandal-proof itself. And yet our study finds little evidence that government officials today are more ethical in 1960 or less ethical than they were in 1960, and certainly no evidence that the American people have more confidence in the integrity of public officials today than they did 40 years ago. What we have created is an ethics regulatory edifice that slows the pace of presidential transitions, makes government less attractive to potential public servants, and gives the political enemies of the president a wonderful set of handles for investigating and attacking the administration and him personally.

Then there's the Senate confirmation process, which has itself become burdened with questionnaires and forms and interviews and repetitive investigations. But beyond that, the confirmation process, as you well know, has emerged as one of the great battlegrounds of contemporary politics. We've seen in Senate handling of presidential appointments the emergence of all kinds of tactics designed to give political leverage to senators, often to individual senators, and often for purposes that have nothing to do with the qualifications of the nominee, who ends up being an innocent hostage in the political crossfire. Delay in all of its forms, holds placed on nominations by individual senators, filibusters or threats of filibusters and elaborate horse trades are all now routine parts of this process. It is the norm now, despite the language of the Constitution, that you really need 60 votes in the Senate, not 51, to get a nomination confirmed. And it takes forever. In the three Congresses from 1989 through 1994, the median length of time from nomination to confirmation was 39 days. In the five years that followed at the end of the 1990s, the median time for confirmation expanded to 74 days—from 39 days to 74 days, and those are medians. That means half of all appointments take 2.5 months or more to get through the confirmation process in the Senate.

So what are the consequences of all of these changes in the character of the presidential appointments process? Several, I think, and quite painful. One notable impact of all of this, of the growing length and unpleasantness of the process is it's increasingly difficult to lure people to Washington from outside of the city to serve in presidential administrations. It's just too hard to move a family to Washington these days and too unpleasant to endure the invasive and elongated appointment process. The barriers are somewhat lower for those already in Washington, and so it is easier to recruit from the neighborhood rather than from the nation. In the years from 1932 through 1964, barely a quarter of presidential appointees came from the D.C. metropolitan area—barely a quarter. In the last three administrations, 60 percent of all presidential appointees have come from the D.C. metropolitan area, so the notion of an in-and-outer system has a very different character today than it used to.

The slow pace of the process is very tough on presidents, especially on new administrations. It's worth remembering that the purpose of an election is to form a government, but in America today it takes more than a year after a presidential election before a government really begins to take shape. As Paul suggested, it's taken longer than ever before in this administration to fill its top offices. Six months into the administration, 75 percent of the top positions in the executive branch still lacked a Senate-confirmed Bush appointee. A year into the administration, 33 percent of the positions still lacked the Senate-confirmed Bush appointee, and today, 18 months into the life of this administration, almost 20 percent of the top positions in the executive branch still lack a Senate-confirmed Bush appointee. We're beginning to lap ourselves. As we start the second round and some of the appointees leave—(laughter)—and others come, we still haven't filled some of the positions of the first one. Modern presidents want to hit the ground running on the day after inauguration, but on that day and for hundreds that follow, they find themselves running alone.

So this seemingly endless, unpredictable process is very difficult for nominees, as well. A distinguished citizen who agrees to answer the country's call and come to Washington to serve must endure a limbo that lasts for many months, not uncommonly for a year or more before being able to take that job. And when confronted with that reality we're finding these days, far too many say, "No, it's not for me." Others say, "Yes, I'll try it," and then bail out before the process runs its course in utter frustration, and for those who stick it out, there are months of lost income, awkward relations with clients and co-workers, and of course, profound uncertainty for their families.

The most important consequence of the presidential appointment process I just described is just the opposite of what we should expect of that process. Instead of attracting the best and the brightest in our society into federal service and then facilitating their entry so that we can begin to benefit from their talents as soon and as long as possible, it repels too many good people and it frustrates and angers too many others.

The primary test, it seems to me, of any personnel system should be its ability to attract and retain the best possible people. But the best minds in our society could not design a process better fitted to do just the opposite than the one we call the presidential appointment process today.

The Presidential Appointee Initiative issued its reform agenda at a Senate Governmental Affairs Committee hearing in April of 2001. That's available to all of you, and I know some of you have seen it and some of you helped us work on it. Let me just briefly name the key features of that.

Number one, cut the number of presidential appointees and cut them substantially.

Number two, the FBI investigation can be substantially changed, curtailed completely in some cases, adapted and modified in many others.

Number three, the ethic regulations, which have grown like Topsy, need to be reexamined and there ought to be substantial deregulation of the ethics requirements that fall on presidential appointees.

Number four, the Congress needs to pay more to get better presidential appointees, a song we've heard sung many times here.

And finally, number five, the Senate must impose some discipline on its own confirmation process, on the ability of individual senators to delay the outcome of that process, and finally, on itself to force a vote up or down, one way or the other, at some realistic time frame so that appointees are not hung in limbo and administrations are not hung with vacant positions forever.

The Presidential Appointee Initiative believes that nothing so affects the capacities of our government as the quality of its senior leaders, and yet the presidential appointments process now fails on almost every account to serve the vital national need we all have for attracting and keeping very good people in those positions.

Thank you, Mr. Chairman.

PAUL VOLCKER: Point or question?

RICHARD RAVITCH: Is there any quantitative data on the number of people who've refused to consider coming into government?

PAUL VOLCKER: (Chuckles.) It's the same question he always asks.

G. CALVIN MACKENZIE: Would that there were, Mr. Ravitch. It's an almost impossible research question to actually count, for a variety of reasons. People—people opt out in different ways. At cocktail parties they say to somebody, "I'd never do that," and that gets passed on, or at some point early in the process they say, "Don't consider me; I'm getting a promotion in my company," and so on. So counting isn't—is really, I think, an impossible task.

But in fact, we did do a survey of—do you want to talk a minute?

PAUL LIGHT: Well, it's a survey that we did with—that I—a report that I authored with Ginny Thomas at the Heritage Foundation, and let me tell, if Heritage and Brookings agree on a problem—(laughter)—it's a real problem. We asked a sample of Fortune 500 CEOs, top 300 colleges and universities, largest 300 non-profits what they thought about serving as a presidential appointee, and the desire to serve was very real and tangible, but when we said, you know, what are the barriers to service, it was pay, it was a perception that the process is embarrassing, slow, confusing, and also the problem of relocating here to Washington. Carole Plowfield at the Presidential Appointee Initiative wrote a paper looking at the relocation policies of the federal government compared to the

private sector here in the Washington metropolitan area, and the federal government is just desperately far behind on the simplest of things in terms of moving appointees here should they desire to move from outside the capital.

PAUL VOLCKER: Is there any moving allowance at all now?

PAUL LIGHT: There is a moving allowance, but it's 18,000 pounds of personal goods. You get some mileage in order to come here—basically the bare minimum. Nothing by way of help on relocation, finding jobs for spouses, temporary housing and so forth. It's very penurious.

RICHARD RAVITCH: Five perfectly rational recommendations in the face of—of the momentum, the inertia, the drive behind the process that keeps—(inaudible)—it, do you see any likelihood of any change? And what do you think this commission could do to propel some change?

G. CALVIN MACKENZIE: I think—the answer to the first question is yes, there is a bill wending its way through the Senate—it has been through committee, it has been marked up, it's been introduced in the Senate—that would deal with some of these questions, particularly the forms and questionnaires, and the repetitiveness and redundancy of those ethics reports.

RICHARD RAVITCH: Reduce the number of 233 questions that you talked about?

G. CALVIN MACKENZIE: Well, that's part of that—some of that—we don't know whether that bill will pass. We are very hopeful that it will, but that's—that's—

PAUL VOLCKER: Don't let it pass until we recommend it so we can—

(Cross talk.)

G. CALVIN MACKENZIE: Oh, it will—it will certainly help. But I think the work of commissions like this, including the first National Commission on Public Service, is to keep these issues on the agenda, and the life cycle of questions about appointments is governed by presidential transitions, and they become much more prominent in the aftermath of an election for a window that closes after a while, and one of these windows will—

RICHARD RAVITCH: (Inaudible)—merit to the idea of requiring the disclosure to be made to a quasi-judicial panel rather than public so that things that infect—that make public family, medical bills, psychiatric treatment for a family member, which I know in many instances has been a disincentive for people to come into public service—is there any thought of that? And would there be any political support for it?

G. CALVIN MACKENZIE: I don't know about the second part of that question, and I would separate out the question of financial disclosure from other questions about psychiatric histories and those sorts of things which come up as part of —

RICHARD RAVITCH: (Inaudible)—see tax returns and you see people's medical expenses.

G. CALVIN MACKENZIE: Oh, yeah, those other questions—the character, personality-type questions come up as part of the White House vetting process, the FBI full field investigations.

On the question of financial disclosure, the history—of course we survived as a republic for a great many decades without any financial disclosure, and then when it was first implemented by executive order by Lyndon Johnson in 1965, it was confidential disclosure of a small number of presidential appointees to the then-Civil Service Commission. It was the Ethics in Government Act of 1978 that made it public financial disclosure and expanded, and it's been subsequently expanded since then.

I hope the work we have done—and we have a book coming out very briefly—very shortly called "Scandalproof," that looks at all of this and in much more detail at what actually happens to these disclosure forms is empirical evidence that suggests this was a good idea perhaps that hasn't yielded benefits anywhere near equal to the costs of imposing it, and maybe that will give people pause and think about it.

PAUL LIGHT: I think commission, in some ways, has been benefited by having Hannah come to it, but we lost a strong advocate on Capitol Hill when Hannah came to the commission.

Hannah, do you have any kind of an update on where the Senate bill might be?

HANNAH SISTARE: Well, the Senate bill was reported from committee. It was introduced by Senators Thompson and Lieberman and has strong support on the Governmental Affairs Committee, which has a real history of understanding this issue, and they are still trying to work towards Senate passage and House sponsorship.

PAUL VOLCKER: Mr. Duberstein?

KEN DUBERSTEIN: Cal, I might mention to you that on the day that your financial disclosure forms were due in the counsel's office in the White House, I was informed when I was chief of staff that there were more than two handfuls of FOIA requests already pending for my Freedom of—for my financial disclosure. So you knew that the day—

G. CALVIN MACKENZIE: For your particular—

KEN DUBERSTEIN: For mine, so you knew—and I didn't have any money when I worked in the federal government, but they were all waiting, lined up so that they would have to be turned over within 30 days. In your five recommendations, I was thinking of a sixth one, and maybe it's incorporated, and that is that all these disclosure forms—ethics, financial, et cetera—somehow need to be rationalized so that every committee in the Senate doesn't have a different form, that the vetting process in the White House or in a presidential transition doesn't wind up to be different from the forms you have to fill out whether you go to the Commerce Committee or the Finance Committee or whatever. I assume that's one of your recommendations, although I didn't hear it in the five.

G. CALVIN MACKENZIE: It is absolutely one of ours, and it is also a recommendation—the Senate—or the Congress put the Office of Government Ethics under a mandate to produce a report early in this administration on how that—there might be some rationalization of that process. I think the Office of Government Ethics did—really hit a home run. They did a terrific job on their report, and that very much is the basis for the bill that the Senate has—is working on at this point.

I would recommend a bill that would go even further, but I'm not, and I'm happy with the kind of progress—

KEN DUBERSTEIN: How would it go—and how would it go further?

G. CALVIN MACKENZIE: Well, for example, those of you who have filled out these forms know that you have 11 categories of value into which you have to divide your assets—if they're worth 50,000 to 100,000 or 100,000 to—in my view and in the research we've done, those categories of value serve no purpose whatsoever, and for the purposes of conflicts analysis, which is what the Office of Government Ethics does—do you have a conflict of interest or not?—they only need to know whether you have a holding and whether it exceeds a certain de minimis, which might be \$1,000 or \$10,000. If it's a conflict of interest at 50,000 (dollars), it's a conflict of interest at 250,000 (dollars), it's certainly a conflict of interest at 5 million (dollars), but we can draw a line. Why multiply the complexity of filling out these forms for no purpose except voyeurism, and then it allows the reporters to come around and write stories about, you know, your wealth has gone up and you're worth between a 1.5 million and 3 million this year instead of something less than that. It serves no public purpose in terms of ethical integrity in the federal government.

KEN DUBERSTEIN: Have you done an analysis of the various committees in the Senate and their questionnaires for—

G. CALVIN MACKENZIE: Yes.

KEN DUBERSTEIN: —and I assume there is wide disparity.

G. CALVIN MACKENZIE: There is wide disparity. That's correct.

KEN DUBERSTEIN: Is there any way to come up with a common questionnaire?

G. CALVIN MACKENZIE: If you could make me king for one day, I could solve it. The problem is getting—I must say, there are some differences. For example, the Senate Armed Services Committee has a different culture and a different set of concerns about defense procurement, and so on, than some of the other committees do, and so one can justify perhaps some of those differences, but those could be in the form of add-ons to a standard form. Getting the committees to agree on a standard form—and there was a significant effort to do that in 1990 with the majority and minority leadership in the Senate working on it. It did not accomplish that objective, and that’s just one of those drumbeats we have to keep making and hope it will happen.

(Cross talk.)

PAUL LIGHT: May I remark that in a moment of weakness you agreed to be co-chairman of the Presidential Appointee Initiative—(laughter)—

KEN DUBERSTEIN: That’s why I asked the question—

G. CALVIN MACKENZIE: Therefore, they are your recommendations as well as ours.

KEN DUBERSTEIN: But I was not trying to claim paternity here—(laughter)—but say that we should go further.

G. CALVIN MACKENZIE: Yes, absolutely.

PAUL VOLCKER: I think we’re getting beyond the pointed, limited question for each panelist before we get to the general—

CONSTANCE HORNER: One pointed, limited question?

PAUL VOLCKER: (Chuckles.) Another limited question.

CONSTANCE HORNER: Very limited.

Cal, your recommendation on modifying the full field FBI investigation is, in my view, absolutely warranted. In my experience in presidential personnel, most of that is doing the president’s political work through the FBI to make sure there isn’t something out that will be politically embarrassing, not a national security threat. But I want to know whether you think in the current national security environment that recommendation has any opportunity for realization?

G. CALVIN MACKENZIE: Well, I—I honestly don’t know the answer to that, Connie, but I—Paul and I had an interesting conversation with a former assistant director of personnel at the White House—not you and not the current one—and we were talking about the FBI full field investigation, and he acted like it was something imposed on the president by some external power, maybe an overseas power, and it was the FBI and you could do nothing about it. And I reminded him it was an executive order that created the FBI full field investigation and an executive order could modify the FBI full field investigation.

You’re quite right. What was designed as a national security clearance review has become a character check, and it’s a terribly blunderbuss instrument for that purpose.

Well, everything is difficult with what we’re dealing, but that, it seems to me, is something where a president, and particularly an outgoing president, might be able to issue an executive order which frames the FBI full field investigation in a much more appropriate way than it is now and not put the political onus on the—

PAUL VOLCKER: We could turn to Mr. Kelman and the Kennedy School, where everything is possible.

STEVEN KELMAN: Only most things. (Laughter.)

Thanks very much for your time. I'm going to try to be relatively brief, although I would say I bet I'm not the only person who appreciates the fact that there are not any yellow, red and green lights sort of shining here—(laughter)—sort of about one-third of the way through your presentation, but I'll try to—even without that, I'll try to be—try to discipline myself.

PAUL VOLCKER: That sounds ominous.

STEVEN KELMAN: What's that?

PAUL VOLCKER: Sounds ominous—(inaudible, cross talk.)

STEVEN KELMAN: Three hours later I'll be—yeah, whatever.

PAUL VOLCKER: Proceed.

STEVEN KELMAN: Yeah, we'll see, right.

Since I teach at the Master of Public Policy program in the Kennedy School, I somewhat regard myself as a front-line soldier in the government's war for talent, and actually, if I may—I'm very happy that a first-year Kennedy School student is here in the audience, Adam Shapiro, who is working as a summer intern at the GAO on human capital issues, and I actually—if I can present a relatively optimistic—for once—dispatch from the front lines of the war for talent, the graduating MPP students at the Kennedy School this year—this time last year about 40 percent of those who had jobs had taken jobs in government. This year the number is up to 65 percent, so it's a fairly significant increase. Obviously, firstly, it's hard to say exactly what, you know, 9/11, the economy, consulting firms not hiring, our own efforts at the Kennedy School in terms of loan forgiveness, and so forth, certainly doesn't solve the problem by any means, but if we couldn't be moving our numbers up in this environment, we—I think we'd have to hang up our hats. So it's at least relatively good news that there has been a significant increase in the proportion of our students going into public service this year.

I served during the last year as the—one of the three co-conveners of a series of executive sessions at the Kennedy School on the future of public service, and these were a series of four off-the-record meetings with about 30 or so folks, a mixture of what I'm going to call the usual suspects—you have people inside the Beltway in both public interest world, the Hill, the executive branch—but also a number of non-usual suspects. Some very distinguished public administration, public policy professors, business school professors, and a number of senior HR people at some of the top-ten Fortune companies to work for in America. You know, Fortune has its list every year of best companies to work for, and we had two of those HR directors participating in these groups—former CEO of Bain—so it was very interesting group.

We had three substantive sessions after sort of, you know, the looking-at-the-problem session. One was on recruitment, one was on compensation and one was on workplace design—the sort of show-me-the-work kinds of issues that Paul has brought to all of our attention. And what I wanted to try to do, and what Paul asked me to do—this is not—I'm not going to—I'm speaking for myself, this is not an official report on what the executive session has found or whatever. The only thing we've done as a group so far is to—almost all of our members of the session have issued a letter in support of Senator Voinovich's human capital legislation.

But what I want to do is just sort of to give some—my own—things that made an impression on me, and some trends that seemed to come out of some of the conversations that we had at the executive sessions on these three issues: recruitment, compensation and job design. So let me tackle each of them first.

The first one, the recruitment, is going to be more—mostly just a collection of bullet points of things that made an impression on me. The first bullet point: One of the most dramatic moments, at least for me, in the whole executive sessions—or in all the four meetings was when Tom Tierney—who is the—was the CEO of Bain and is now CEO of Bridgespan, which is the—sort of a non-profit spin-off of Bain—told the group that when he was CEO of Bain, he spent 10 percent of his personal time as CEO working on recruiting entry-level employees for Bain—10 percent of his personal time as CEO, plus all the top managers at Bain, one of their—one of the—sort of the elements in

their performance evaluation was not only how good a job did they do recruiting people, but they even tracked the people who they were responsible for hiring—how did they do in the firm over the next five years. It made such an impression on me—and I think on others—because the contrast with the federal government, where the idea that—forget a cabinet secretary, forget an assistant secretary—even career SES people spending time personally working on recruiting entry-level employees is so far from the agenda. I should say, by the way, there's an exception. Dave Walker, the Comptroller General, does what Tierney does and does—both in terms of his own personal time and in terms of his top managers and putting it on their performance—(inaudible)—so conceivably it can be done. But the system we have in the federal government where recruitment is basically done as a, you know, low-level staff activity really symbolizes our failure to take these kinds of issues seriously in government. So that was one thing that made an impression on me.

Second, I think there was fairly widespread consensus that a high priority in terms of just sort of one legislative change we need in the recruitment area is eliminating the almost-100-year-old Rule of Three in appointments, which I'm sure people are familiar with—a certain pay scale at work. Basically, what the Rule of Three does is it takes a series of very formulaic criteria, which typically are numbers of years on a job, formal experience, courses you've taken, things like that, and through this formulaic thing, set—you know, chooses the only three people that the actual hiring manager is allowed to look at. And one of the—it has a lot of very counterproductive effects. One of them—as one of the HR people from one of those Fortune top-ten companies pointed out to me—he took a look and he said one of the results is that just to apply for a job in the federal government you have to do these 20-page life histories, these enormous forms at the very beginning of the process. He said that would never happen in the private sector. In the private sector you start out with something very simple—a simple résumé. They use that to cull most of the people out and then you put in more information as you become a more serious candidate. The costs of entry into applying for a federal job are so enormous because you have to get all this information at the beginning so you can go through this—you know, this rule-of-three drill.

So that's a—and also, of course, completely not included—you know, what's not included in the formulas for the Rule of Three is anything about accomplishments. It's all, you know, what course have you taken, what—how many years have you served time, sort of—nothing about what have you accomplished, which I think is a serious problem that, in my own personal view, actually should—there should be something in the statute talking about in addition to knowledge, skills, abilities, we should add accomplishments as something we look at in hiring.

The last thing on hiring—and perhaps Max is going to talk about this in his presentation—I don't know what's in your presentation, Max, but something I know the partnership is interested in is the federal government still—its hiring model is still from the era of "Leave It to Beaver," of people who go into a big organization at the age of 21, stay in the organization for 40 years, you know, and just sort of move their way up. If you say to most of my students, you know, I think you're going to graduate from the Kennedy School and you're going to stay in the same job for the rest of your career, most of them will look at you as if you come from a different planet. That is not the way young people today by and large see their careers, and by not making the government open to both people coming in mid-career from outside the government and for people coming in for brief periods of time—I'm not talking about political appointees; I'm talking about career people for three-year stints, two-year stints, four-year stints. I think we are losing a huge opportunity and a huge talent source for government and keeping the government, again, back in the era of "Leave It to Beaver."

There's again some legislation here. Congressman Tom Davis' digital tech corps bill, which has passed the House and awaits action in Hannah's old committee in the Senate, but it's already passed the House so it would be a—sort of a first stage by allowing in the IT industry people to come in from the IT industry for two years for the government and go in the other direction is a very good first step in this area.

Second, compensation. First of all, if you haven't done so already, we spent a lot of time at that meeting talking about the OPM report on compensation. I think it's a superb report. You—everybody should take a look at it. Among its many virtues is that it is not written in bureaucratese. It's written—it's very well written, it's a very nice job. Everybody should take a look at it—written by a career person, by the way, Connie.

CONSTANCE HORNER: Who wrote it? Do you know?

STEVEN KELMAN: I don't remember her name.

CONSTANCE HORNER: Great.

(Cross talk)

STEVEN KELMAN: Doris Hauser.

CONSTANCE HORNER: Thank you.

STEVEN KELMAN: Great—it was a great job.

Two of the themes in our meeting on compensation that I want to talk about just a little bit because they are different from the conventional wisdom, I think, a lot in Washington—one on pay for performance and one on general compensation levels.

On pay for performance, it was very interesting. At the meeting there was a real gap, I would say, between the inside-the-Beltway people and the outside-the-Beltway people. The inside-the-Beltway group was sort of what you expected. Most of us were I guess what I'm going to call good government types, like most of us here at the table including myself—are very positive toward pay for performance. We need it more, it's huge—very, very important and so forth. The union people didn't want it and so it was sort of a—that was the inside the Beltway.

But the far more interesting thing was actually both the—and this I think is going to surprise probably most of you—that both the academic, HR scholars who were in the group and, to a certain extent, the corporate HR people were actually far more skeptical about pay for performance in—from a private—from their own private-sector perspective than you would have expected. One of these top-ten Fortune firms that—you know, that was in our group, the SAS institute—except for sales people, said they don't really have pay for performance at all in their corporation. One of our other participants, Renee Lurch—now at the University of Michigan, used to be at Ford—talked about the bad experiences Ford had had in trying to introduce a pay-for-performance system.

The interesting thing about that conversation was that many of the same issues that you hear about problems in the government in implementing pay for performance actually exist in the private sector as well, and it sounded almost like déjà vu all over again. Managers who don't want to do it because they don't want to confront people—that happened in the private sector a lot. A lot of issues of resentment by employees who are not top rated, there's a lot of evidence from social psychology of we, in everyday conversations, call the "Lake Woebegon phenomenon." Most employees, public or private—but let's talk about private—think that their performance is above average. Most employees put themselves in the top quarter of performers. Survey after survey shows this, and that—it makes for problems when you—you know, when you rate somebody down because they are thinking they are—you know, they've been the victim of favoritism and so forth.

There are some very complex issues involving if you do pay for performance, you reward teams or do you reward individuals. There—you know, when work is being produced by a team, on the one hand, if you award individuals, you create a problem of people trying to sabotage each other; on the other hand, if you just reward teams, you can create free rider problems, so there are some very difficult trade-offs there, and then—all these—these are—all the things I'm telling you are things that the private folks were saying from private-sector experience.

And then last is that in the private sector as well people are very resistant to being held accountable for anything that is not under their very direct control; you know, if I don't fully control it, I don't want to be held accountable for it unless you give me a lot of upside. So—interesting.

Second thing on compensation, there are a fairly significant number of academic studies by academic economists about compensation levels in the public sector and the private sector. Now the problem with them is that there are none that are much more recent than about 15 years old. Actually, my colleague, George Voorhees is about to finish a new one, and I will share it with Paul and with the group. I think it's actually about to be ready—but almost all—not almost—all of the existing studies show or come to the conclusion that there is almost no evidence that government employees on the whole are underpaid compared to the private sector. The academic studies are pretty unanimous on this, with maybe a few specific areas—judges, obviously. Again, they're 15 years old, but they all sort of—none of them say that government employees on the whole are underpaid.

Last thing, workplace design, and this is again the kind of issue that Paul has talked about, I think, and really brought to our attention on show me the work because we've really got a danger that, you know, these—we have 65 percent of Kennedy School Students coming into government. Are these jobs going to be attractive enough to them to, you know, to want to stay for awhile and so forth.

A—two MPP students this year did a project sponsored by the Partnership for Public Service with John Palguta, working as their adviser on their—and I was working on the Kennedy School end, where they interviewed 25 recent Kennedy School graduates working in the federal government and 25 Harvard Business School students who had had three years of experience in Fortune 500 companies. For various reasons we couldn't get access to alumni records for Harvard Business School so we had to just do current business school students. But the two most dramatic findings—just talking about their jobs, the most dramatic findings were the Fortune 500 kids, even three years into their jobs—every one of them had responsibility for something, even if it was the ad campaign for Apple Cinnamon Cheerios. It could be something very, very small, but they all had something that they were responsible for, that they were—you know, that they did. Almost none, except for kids at OMB—almost none of the federal government employees three years out had anything that they were responsible for. They were coordinators, they passed paper up the chain and so forth—big problem.

Second, dramatic difference in reports of the quality of first-line supervisors. Most—the vast majority of the Fortune 500 kids—almost all of them were very satisfied with their first-line supervisors—mentors, coaches were—21 out of 25 of the federal government employees were dissatisfied with their first-line supervisors, whom they reported as being either micromanagers or ignored them, with almost no mentoring. So a huge problem, you know, huge difference.

I think I would strongly urge the commission to take on the issue. You can't deal with the workplace, you know, with the human capital requirements without dealing with the issue of the design of federal jobs, and I think the fight against bureaucracy, against too much hierarchy, too many layers of review, too many internal rules, too many layers within the organization is another thing that Paul has brought to our attention. All of that is, I believe, at the center of what you need to take on. It's not classic HR, but I think it's in the center of what you need to take on. The very last thing, I'm just going to—just as a bullet form just to switch from my role as executive session to my work on procurement because Paul made some attention to it—with more and more of your government's work being contracted out, another thing that I'd urge the commission to discuss is the real need we have in government to develop a profession of program management and contract management. So much of the government's work now is being done through contractors, and the success of government is dependent on successful contract and program management. Still, by and large with some exceptions, in the federal government contract management and program management is this incredible administrivia task involving reviewing receipts and timesheets, and it's given to the person—it's sort of like a punishment to get these jobs rather than a serious executive-level responsibility involving performance management, team building and so forth. That's another issue I'd urge you to take on.

I spoke too long, sorry. But it wasn't three hours.

PAUL VOLCKER: Thank you, and it was not three hours. The red light just began to go on mentally in my head. (Laughter.)

Pointed questions only.

BRUCE LAINGEN: I have a point and a question—you make that point about how important it is that an employee be assigned a job, a thing, a responsibility, to make a difference, and that's such an important slogan as far as young people are concerned entering government.

My question is—(unintelligible)—perhaps Vin Weber knows—well, I'm not sure how Lake Wobegon got into the discussion.

STEVEN KELMAN: Oh, Lake Wobegon—(cross talk)—no, that was in a different context.

CONSTANCE HORNER: Everybody is above average.

STEVEN KELMAN: Yes, everybody is above average.

VIN WEBER: But it's only true in Minnesota. (Laughter.)

STEVEN KELMAN: Well, actually, the psychologists will tell us it's a universal human trait.

PAUL VOLCKER: Sure, it's the chief executive one—(inaudible)—

VIN WEBER: Minnesota is a subsidiary of the rest of the world, at least in this regard. (Laughter.)

PAUL VOLCKER: Another pointed question? You have a lot of pointed points or blunted pointed questions, I guess. I think we'll come back to it, but —

Ms. Hosek.

SUSAN HOSEK: Thank you for letting me be here and try to give you some tidbits, because that's all they're going to be, from the work that RAND does in this area.

I have calculated on a couple of occasions and always come up with the same number of what our level of effort is on public worker policy, and I figure we've got a hundred man years each year devoted to this issue at RAND. I should say—I'm going to skip my slides. You have them, but in the interest of time—it will take me too long to use them, so I'm going to—I'm going to use them myself, but I'm going to move quickly through them.

That—those hundred man years are virtually exclusively devoted to the personnel of the Department of Defense, which clearly has been a leader in trying to develop systematic analysis of its policies and to do a good job. They presumably didn't do this just because they're more enlightened than other people, but they did it because they had to switch from a draft to an all-volunteer force. RAND's effort was born at that time and has continued ever since at an ever-increasing level.

Within the Department of Defense, almost all of our effort is devoted to military personnel. From time to time, somebody says, gee, what about civilians, who are something like not quite two-thirds of the total workforce within—well, excuse me, they're not quite two-thirds of the size of the military workforce.

In the past few years, we've had a very small but, for the first time, consistently continuing agenda on civilian personnel, and while it doesn't cover the full range of policy areas that we cover for military personnel, it is thin perhaps, but relatively broad. The one area we haven't looked at is recruiting civilians.

As it turns out, I have exactly the same three topics, pretty much, that Steve had, although I think my information will in many ways complement his.

One other comment—I'd like to make two other comments in response to Steve's comment. One is that in addition to doing policy research, I also educate future policy students, both at RAND and most recently at Carnegie-Mellon. Kennedy School's recent experience in sending people into the public sector is far better than I believe any of those two institutions, but the problems that he describes are very familiar ones to me.

The other comment that I would make regards his last point, and it wasn't in my talk, but the Defense Department has made a very significant effort, which is continuing and still needs work to develop a professional acquisition workforce, and that may well be a model for you to look at.

Let me return to what I was going to talk about. I'm going to talk about recruiting, compensation and management of the workforce—familiar topics. The recruiting work that we have done has been on military personnel, both enlisted and officers, and I think there are a lot of lessons there that can be extended to the civilian workforce as well. One of them is that so long as your overall pay level is more or less in line where it needs to be—and I would agree that that's probably the case—pay is not the way to fix shortfalls in recruiting. You can do it that way but it's extremely expensive because you pay everybody the higher—at the higher level, not just the additional people that

you attract. Instead, we've learned a lot about what does appeal to young people, and at the top of the list is educational benefits. The Defense Department attracts people by offering to pay for their future education and by offering to pay for their previous education. They even get doctors by paying for medical school education, and that turns out to be highly cost effective. The department also has a lot of experience on advertising, and they have a—most of the time—fairly effective advertising program. Finally, of significant importance is the management of the recruiting effort. You can have the best inducements in the world, but if you don't have a good recruiting effort, those programs will not be effective in attracting young people. And my colleague, Jim Dertouzos, who was originally supposed to be here today, has been a pioneer in trying to understand how the programs fit with the management and the recruiting effort and how you need to work those together to get a good outcome.

One comment on television advertising, which is when people think of advertising these days, of course they think of television. It can be extremely effective, but not unless you've got a big budget. There is sort of a threshold effect, and if you can't hit that threshold, you're wasting your money and you need to look in other directions.

The other point that I would make regarding advertising is there is a question—do you sell national service—in the Defense Department's case, military service—or do you sell the particular agency. I know that Jim believes—and there is some evidence to support his belief—that it is more effective to concentrate your resources on selling the general product—national service or military service—rather than to have each and every agency trying to sell itself. There's not enough bang for the buck at the individual level.

Let me turn to compensation. Compensation has been a major area of research at RAND going—for the Defense Department going back probably about 15 years, although we did work certainly before then, and there are a few general lessons that I would like to draw to your attention. One of those is the importance of accurate information. It is amazing how frequently decisions are made on the basis of totally inaccurate, wrong information, and that's because the simple measures that are frequently used are not well-tailored to the specific instances in which they are used. You may—many of you may know that there was a highly publicized military pay gap that existed for years. Everybody believed in it. People still believe in it. The only problem was that, overall, it didn't exist, and in fact, in particular it didn't exist for the group of people whom everybody worried about the most: entry-level enlistees. Those people actually did have a pay gap, but it went in the opposite direction. Where there was a pay gap, it was for the people who had the most experience and education: officers and senior personnel. It was—you know, drawing that to the attention of Congress was very important, and there has been some movement now in the direction to begin—rather than dealing with this issue as just a general "are we paying everybody enough?" to really begin to understand who is getting enough and who isn't.

The other point about tracking pay comparability, which I something people in the public sector just love to do, is that it's not sufficient by itself. It's useful, but you have to look at pay comparability in the context of your overall objective. Are you bringing in enough young people? Are they the people you want to bring in? Are you keeping them when you want to? And by the way, are you separating them when you want to? And compensation is a tool that allows you to do all those things. So the first question is are you meeting those objectives, and then the second question is, if not, you know, what do you need to—what's wrong with your compensation system or other things, and how do you—what do you need to fix.

Finally, it's not just enough for the policymakers to have good information. It is absolutely essentially that the workers have the same information. To this day, you talk to almost anybody in military service and they will still tell you that they are underpaid. They believe that because the pay gap was so comprehensively publicized. The information that suggests that the picture is a little bit different than it was originally portrayed has not been so well publicized, and I know that David Chu, who will be here tomorrow—that's one of the issues that he's particularly interested in, is trying to find out how to correct that problem on a systematic basis.

I'd like to turn for a minute to our work on the civilian workforce. As I said, that's relatively small effort for us, and much of our work is focused on just trying to provide the basic information of what goes on in the Defense Department civilian workforce. So we basically have created information about pay profiles and retention and that sort of thing. We've also done some work on retention—on retirement systems because that was a particular need during the drawdown.

Unlike military personnel, it's very—it's a little bit frustrating to do work on civilians because there is no defined objective. For military personnel, you not only know how many you're supposed to have, you know what occupations they're supposed to be in, what grade levels they're supposed to have, what the promotion rate is supposed to be, and all sorts of stuff of that sort. For civilians, only the number you're supposed to have, really, is well defined. So when you look at what is, you're not sure is that good or bad. We do know a couple of things. One is that, interestingly, the performance system—the performance evaluation system and promotion systems do tend to pick out better performers, at least in the Defense Department. We weren't sure that that would be the case. It was encouraging to see that it's true. The question, of course, is does it do that well enough.

Similarly, those who perform well do get paid a bit more. The difference is not large, but at least it's a—in the right direction. On the other hand, there is a significant problem, which I'm sure—(audio break, tape change)—increased level compared to what it had done previously so that the differences in earnings between somebody who had only high school education or a year or two of college versus somebody who completed college, grew and grew very rapidly. That has not been the case in the public sector. So while pay may be good overall, it appears not to be good for those who are the highest, have the most skill and the most education, and we have quite a bit of research to document that in the case of DOD. There is some evidence of the problems that that causes. For example, we find that those who have Ph.D.s are less likely to stay than those who do not.

We've done some focused looks at scientists and engineers and also, by the way, at information technology workers at various levels and for the case of the scientists and engineers, we actually find that the pay premium that they got because of their advanced skills, actually declined relative. In other words, they got less relative to their normal college-educated colleagues than they did in earlier years. Interestingly enough, we didn't see that their retention eroded as a result—further eroded as a result of that decline in that pay premium that they got. It may well be that it's because we were looking at a period where the draw down was also eroding employment opportunities in the defense industries, and that's where many of these people go. But that is a matter of some concern. When there are good outside market opportunities, you would expect that people would leave if they're not being adequately compensated.

The other point that—I'd like to sort of end with just a couple comments that deal with management. First one, again, deals with compensation. We've done some work, and others have done even more work, to look at the response of managers to greater flexibility in the compensation system. So when they were granted bonus authority, did they use it? When they were given demonstration authority did they use it? Now the latter is problematic because those demonstrations end and you may not want to set up something that you have to undo later, but still consistently what people find that those new authorities are not fully used by managers in the public sector. One of the reasons may be that they simply don't have the money to implement the greater—the bonuses and the other things. But I think it's also the case that having grown up in a system that they understood very well, they're a little reluctant to take advantage of some of these changes.

Finally, most of the time in public service, it's very difficult to observe the productivity of the workforce and that's because the output of many public agencies is hard to observe. Where we can observe that output we frequently observe the critical importance of workforce management. One of, I think, the best examples is again the military recruiting system. The output is easy to measure and we have actually a lot of data on how that workforce is managed. It has a very unique approach to manage, using quite explicit incentives.

The management of recruiting in the Department of Defense has gone through cycles; cycles where it's very good, cycles where it's not so good. What you observe is that when there's a problem, a recruiting crisis, everybody energizes themselves, pays attention and the performance of the system improves. Then things get easy again and that management erodes and, furthermore, the knowledge about how to manage that workforce erodes. My colleagues who work in this area, basically they get a phone call every time there's a crisis and they go out and they look at what's going on, and they come back and they shake their heads and say they've forgotten everything they learned the last time. You observe in that setting and in other settings the lack of a consistent, ongoing incentive to learn how to manage the workforce and to sustain that knowledge so that if you bring in good people, you get the full benefit of their skills and experience.

RAND works on almost—one way or another, almost any topic in this area and I would be happy to try to answer questions later on if you have any, but I'll pass the baton on to my colleague next to me unless you have some of those pointed questions.

Chairman Volcker.

PAUL VOLCKER: You have a pointed question? Thank you very much.

VIN WEBER: Thank you, Mr. Chairman. My question is this—I'll preface it. I am always surprised—and the non-profit boards where I serve, there's a very different attitude towards salary adjustments by the top people in a not-for-profit group and the top people in a core-profit group. Literally, any number of such people that I've dealt with have turned down pay increases because they felt it would adversely affect morale in the not-for-profit group. This is not an absolute thing, but really a phenomenon that's surprising. My question to you on your point about targeting compensation increases to senior executives in government—is there a similar cultural question that you need to deal with that is even maybe stronger when you are working for the government even in a not-for-profit group?

SUSAN HOSEK: Actually it's probably strongest in the military.

VIN WEBER: Is that a reason why we can't do it? Would that accept across the board?

SUSAN HOSEK: No, I don't think so, actually, because the kind of differences that we're talking about are not of the scale that they are in the private sector. It is true that because these are people who might fight together, there is a strong interest in equity and in teams and those kinds of issues that you see in the nonprofit sector as well. On the other hand, there is a recognition that if the differential gets too big, people will not—they will not stay. Among other things, they begin to feel that they're doing their family a disservice if it reaches—if that—not just the differential, but if that standard of living that they can enjoy begins to erode too much. And I think that the experience in the military has shown the value of high-quality leadership and it has not be a hard case to make when the information was there to support the case. I mean, if you look at the actions that have been taken in Congress, they have done—(inaudible)—pay increases. They're not large, but they add up, actually, over time.

BRUCE LAINGEN: With two sons in the military service, I'd like confirmation. Did you say that there is no pay gap in the military services?

SUSAN HOSEK: Not overall, on average. But there is for certain groups.

BRUCE LAINGEN: And at the enlisted level there is a reverse gap.

SUSAN HOSEK: At the junior enlisted level.

BRUCE LAINGEN: What does that mean?

SUSAN HOSEK: That means that if you're a high school graduate, 20 years old, who joins the military, you're going to make more on average than you would if you stayed home and got a job. That's the one group for which that's true.

But that's not just true for the outstanding—that's true for the average officer, not just for the outstanding one who would expect to get a great job 400 to 500 or something.

PAUL VOLCKER: Yes ma'am.

CONSTANCE HORNER: Susan, you said, I think, that the in the management of recruitment, when there were clear incentives and clear need recruitment improved. What kind of incentives?

SUSAN HOSEK: Well, when there's an organizational incentive, so for example, in recent years when the services—almost all of them, I think, except the Marine Corp—at one time another fell short of their recruiting goals, which was unprecedented. And organizationally there was a very strong incentive to fix that. That then led to

senior leadership paying attention to what they needed to do in order to get the system working again and as part of that, they relearn how to set the recruiter incentives.

CONSTANCE HORNER: But the incentives you're talking about are incentives related to attention, focus, clarity of mission, or were they concrete?

SUSAN HOSEK: Every recruiter has goals and works under an incentive system.

CONSTANCE HORNER: So many recruits get you, but what do they get you?

SUSAN HOSEK: Actually what's amazing is, they get you very little. They get you a ring and things of that sort and also, of course, the performance evaluation, but it's very motivating. But those goals have to be set correctly for it to work well and, as I say, there's an institutional incentive that translates into a strong desire to get the individual incentives and all the resources and everything else set up right so that it all works well. And then, when things get easy again, that seems to disappear.

CONSTANCE HORNER: Do you think this observation has applicability or not to the broader civilian workforce in the federal government?

SUSAN HOSEK: My own personal feeling—and my colleagues may want to comment on this—is that it probably has great applicability because I think it really has to do with the kinds of incentives that are there for people who manage in the public sector. They may not be strong enough to keep that effort in a complex setting like recruiting.

CONSTANCE HORNER: I'm trying to translate this mentally from what I know of the private sector. For instance, for top sales managers, a weekend with spouse and children in Hawaii is a huge incentive. It's social validation, as well as the experience and payback to the family for time lost and so on. It's very hard for me to imagine such an incentive being offered in the federal workplace and so I'm trying to understand. Are there any —

PAUL VOLCKER: So they do a good job in the military, we're sending them to Afghanistan.
(Laughter.)

CONSTANCE HORNER: Exactly, without spouse and children. I'm just—I think the federal workplace is trying to make do without a traditional, obvious form of incentive, but I can't imagine a dignified and ethically appropriate way.

SUSAN HOSEK: Well, there are some bonus systems and other people can talk about those, but recruiters are interesting because one of the key incentives is a ring and obviously what that is, is a badge of success and that appears to work very, very well and certainly that's something that those kinds of incentives can and are used in public sector.

PAUL LIGHT: I think much of this work that RAND has done at DOD is quite applicable and generalizable to the non-DOD civilian workforce—very powerful messages—and in the absence of parallel depth on the domestic side, where we have never invested dollars in research on personnel. You know from your experience at OPM that it's just—there's been money, there's been no interest on Capitol Hill. It just hasn't been there. We have to rely on generalization, and I think RAND is doing enough work now on the civilian workforce at DOD that generalization is increasingly possible. I mean, I'm very familiar with the RAND work. I don't pretend to understand all of it, but it's very good and very generalizable.

PAUL VOLCKER: Max Stier is going to tell us all about recruiting.

MAX STIER: I'm going to tell you something and I'm going to actually try this Power Point presentation as well. We'll see if this is a —

PAUL VOLCKER: Modern technology.

MAX STIER: Technology—we'll see how modern. What he manages is, you each have a notebook in front of you that has the presentation it's in front pocket, so if you don't want to strain your neck there.

First point would be to thank, in particular you Chairman Volcker. The Partnership for Public Service is very much the offspring of the original Volcker Commission. We have learned much from the observations that ring true still today from your report—your initial report in 1989 and we have, in many ways, designed what we do at the partnership to follow through on those recommendations. I'd also like to thank many of the folks here who have been very generous in helping the partnership set up in it's first year of business and have been generous both to me personally, but also in their time and attention to making sure that we contribute to this effort.

I'm going to really focus on a few principals, the first one being the overarching one. You've heard much today and also on Monday and you all have experience in the whole question about the crisis that's formed that is impending upon the federal government—very much the same crisis that was outlined in the Volcker One report, but clearly much, much larger. Larger both because you see a decade in the 1990s where the federal government had large-scale reductions and the fact that we have an impending retirement way that is much, much more dramatic than what was seen in the—(off mike)—Volcker Commission—(off mike)—the late 1908s.

That said, I'm going to focus instead of the problem on what are potential solutions. And our primary observations is that the how is equally important and essential as the why. As I mentioned, Volcker One, when you read it today, it rings true, but only one-third of those recommendations were implemented by **PAUL LIGHT**'s count in any form or fashion. As a result, I think we need to pay a lot of attention to figuring out how to get done what we all realize needs doing.

To do that, I would offer three observations. First, that we need to build on existing efforts, and that includes efforts by organizations causing a glut of turmoil among the vote that hopefully people can see either up on the screen or on the presentation in your notebook. But first, as I mentioned, we should be building on existing efforts both that other organizations have been achieving, and I'll talk about some of those that the partnership has worked on, but also very importantly, on those places inside the government that are working well, both on the performance level or on the recruitment level.

The second principal that we need to focus on is the principal of measurement and we heard a little bit about that from Susan. The bottom-line proposition is what gets measured, gets done. And right, in this arena, there are very few measuring sticks that we have available to us. And I think that if you're going to be thinking about what works, you need to have a gage to measure whether the needle is moving and that gage, by-in-large, does not currently exist. And finally, all of these efforts are going to require leadership from the top.

The Partnership's plan, in terms of it's efforts, really focuses on five main elements and I'm going to just walk through very, very briefly some of the principals behind it—five principals—and then talk about just a couple of the programs underneath those. So up at the top, the education outreach effort is really an attempt to make sure that the talent communities that the federal government needs to reach—and that includes both the entry-level and experienced workers—are understanding the opportunities that are available to them in the government and the advantages of government service.

Secondly, we need an active communication strategy, which we are working on, to make sure the American public understands the importance of public service. And, in many ways, we are trying to make sure that the public understands, in the same way that the military is essential to their way of life, that civilian readiness and the civilian worker is equally important.

Third, and this is a point that Steve made, all of this depends on making sure that the government itself is offering a work environment that's going to be attractive to high-performing individuals and itself is going to be high performing.

Fourth, the research is critical to knowing which direction we should be moving in, and plainly the efforts that RAND and organizations will be I think quite critical in that. And then fifth and finally, obviously, legislative initiatives to deal with some of the structural barriers.

This has been mentioned by Steve Kelman, the Partnership has been working on what I think is a different proposition than was originally proposed in the Volcker One report and that is to view the talent needs of the federal government as a talent pipeline; that the young people do not see themselves in a career for their life—their average tenure is closer to three years than to the decade and plus that prior generations had in jobs; and that it's essential for the federal government to be building on a model that permits folks to be looking at government work as a career builder and not simply a career. It is also true that when you look at the challenges facing the federal government, such as a retirement wave, that bringing in entry-level people is not enough. We need to be able to attract experienced workers. The bench, right now, is missing in the federal government and that bench is primarily a bench that occurs at the 12, 13, 14, 15 GS level and not just at the entry-level point.

I'm going to talk about a couple of places in which we've done some work in this arena and I think are going to be useful. First, when I talked about building on what exists already, we have commenced the call-to-serve network. This was something that was mentioned by Director James because we are doing a partnership with the Office of Personnel Management. It was a recommendation made in the Volcker One report. We have built a network that, I think, is vibrant and surprisingly active. Over 370 colleges and universities in a period of three months has signed on to its initiative, over 50 federal agencies and they have all agreed to raise the profile of federal service on their campuses. Now this is a network and the content that belongs in that network still is in development right now. Agencies are agreeing to take on projects to provide that information, but that is something that I would hope that the Volcker Commission Two report would talk about—using efforts like this to accomplish the goals, the how, that are outlined in your report.

As part of this, I think it's also important to focus on the hiring process. It's not only a question of information gap, but as you've heard quite a bit, the hiring process itself is broke and has to be fixed. The office of personnel management, in conjunction with the Partnership, has issued a pledge to applicants, which includes propositions like, you will be—your application will be responded to in a quick easy fashion and you'll be informed of where you are in the process. That needs to be made a reality.

Other recruiting issues include, at the very entry level, the question of internships. The Partnership put out a report last week on the fact that the federal government is yet again behind the private sector here. Internships are usually viewed by well-run private sector companies as a means of filling that pipeline, of finding the people that they need. The federal government right now converts only 12 percent of the interns it has that are in career-oriented programs, compared to an average closer to 35 percent in the private sector and that's a very small pool itself. We have some recommendations propose regulatory changes that would make conversion easier—into full-time federal employment and we would offer those to the commission.

Likewise, on the mid-career level, this is a very significant problem in the federal government today. Only 13 percent of the mid-career hires that are occurring today, and this is a government average, come from outside the federal government and that's in part due to the fact that literally only 50 percent of the vacancies are even advertised externally and in some agencies it is much, much worse problem. There are a bunch of solutions to this. One of those is to create a presidential management fellows program that would be akin to the presidential management intern program, but for experienced workers. And yet again, I think this is a very concrete proposal that we need help pushing to make happen and that would very much make a real difference.

That pieces that still need to be dealt with in addition to recruitment, obviously are the retention of performance issues. Once again, on terms of building on existing efforts, there is a lot out there that is very useful. The Partnership has done some initial work on identifying agencies inside the federal government that are best places to work, that, according to survey work that's been done by the office of personnel management, they rank at the very top of the federal government, as great places to be and when you look at comparable models in the private sector, they stack up very well there. And so we've outlined four different agencies in the federal government that do well. There are a lot of common themes to them. That means that you have a place, inside the government, where the—(inaudible)—should make it work and that ought to be a good model, I believe, on building on for the rest of the government. Once again, that information is in the binder before you.

We will also be creating a solution center that will be Internet accessible. One of the major difficulties right now in the federal government is that while there is some great innovation, it is by and large not known throughout the government. It is only understood and known within very small pockets and we will be identifying success stories,

templates on how it worked, who to contact on a variety of issues that are relevant to human capital management that will be available to anyone who wants to access it through the web.

We also presented a paper at the Kennedy School on best practices where—actually this is something we've got—best practice flexibilities of once again looking at agencies, what has worked in terms of additional flexibilities in the government that are out there, in the field, that have been successful and identify the primary flexibilities that are needed. And, again, this is obviously flexibilities that are in the context of a performance management system, but things like category ranking, pay banding, workforce shaping opportunities are some of the key ones.

One thing that's not listed here, which I think is quite important as well, is that on the pay-for-performance issue, I do believe I would take slight issue with Steve on the question about the private sector models here. I think you clearly need—I think that the research clearly shows you need to be able to differentiate on some level between your high performers and your poor performers and you need to be able to reward your high performers in some fashion. It's interesting that 31 federal agencies or components of federal agencies do that today and do that quite successfully. And once again, I think we need to be looking at those models to find out how we can build something government-wide or make opportunities for something government-wide and that's the best model for success. On the point of what gets measured gets done, one of the recommendations made by the Volcker One commission report was to have a—in this case it was a twice annual report. We are going to be doing this public, so the Partnership of Public Service will be issuing the State of the Public Service report on an annual basis. One of the elements of that report will be tracking the recommendations that were made by this commission here and what's been done and what has not been done.

We have agreed with the Volcker Commission that we would take a leading role in implementation. That's where we see our value added as an organization and one of the ways we were going to manage that is by issuing a report that includes both what has happened with respect to the recommendations that you will be making, but also focuses on the help of the public service more generally. Looking at a broad range of different measurements, both ones that we ourselves will construct, as well as ones that are already on the table, like the OMB-OPN scorecard, which I think is a very important progress in this arena, because, as I mentioned, we really are flying blind largely in the civilian side and we need to be able to develop this kinds of metrics to generate understanding and support for change.

Finally, there's the issue of leadership and I think that is clearly something that has to come from the very top. One of the most moving moments that I saw when the present president spoke to the federal service was when he was introduced by a federal employee and she ended by saying, I want to introduce my boss, the president of the United States and that is a principal and a concept that has not really sunk into the federal workforce today, nor to the American public. I think that here we have a wonderful quote that was included in the first Volcker Commission report about the critical need of leadership. I think that this commission has a very important role to play in beating this drum and making sure that the leadership in this administration and the leaders in our community understand the importance of this issue and the need to hit this message time and again and again.

I would end with the quote the President Bush made here very recently to federal workers, which is the message that needs to be heard. It can't just be heard in that one presentation that he made. It has to be issued by him, by every administration official and lived by. And I think the bottom line here is the how and the how is this and what we can do here as presenters to you and what you can do as a commission is to generate both smart ideas about what needs to be done, but a strong focus on making sure that it gets done. And that's the final thing I would say here, the how cannot be forgotten. I know you've heard that before, I'm sure it's on your mind. You've been here, Chairman Volcker, before. I think we do have an opportunity to make a difference here now and we are looking forward to working with all of you to make that happen. Thank you.

PAUL VOLCKER: Well, it's nice to have that upbeat, optimistic, go-at-'em—(unintelligible)—things. We'll see what can materialize here. Pointed questions.

CONSTANCE HORNER: Max, perfect presentation. You said only 50 percent of mid-career jobs are open to the public to apply for.

MAX STIER: Yes.

CONSTANCE HORNER: Do you know—can you tell us what the barriers or deterrents are to that other 50 percent? In other words, why isn't it 100 percent? Is it regulatory? Is it managerial preference? Is it union preference? What is it?

MAX STIER: Maybe, unfortunately, but I think for all of these issues there's a little bit of each of everything that you mentioned. And in some sense in thinking about how to really make change here, I think it's important to focus as comprehensive plan of attack. So there are regulatory barriers. A lot of it is management itself. Primarily that has something to do with the fact—and I'll give you an example of the Department of the Navy. I believe it's something like it takes 131 days to bring in someone, on average, from the outside if you hire externally. It takes 51 days if you hire internally. So one of the primary reasons why managers decide, and it's up to their discretion, is speed. Certainly issues like the—(unintelligible)—and those kind of restrictions have some bearing on the additional time it takes to hire externally. And a lot of it has to do with the fact that the culture is not, the expectation that the managers need to reach out to the very best talent, whether that exists externally or internally. And so there are a host of things that need to be addressed in order to affect that.

BRUCE LAINGEN: I think I heard you say that the average component part of a career-long service now is three years.

MAX STIER: I'm sorry. The young people today when they are—their average tenure in a job is approximately three years and so it's a fascinating graph I didn't bring with me, but if you look historically at prior generations, the tenure of jobs were much, much longer than they are today.

BRUCE LAINGEN: I know about prior generations.

MAX STIER: There we go. But in any event, the point though is that most people—and this is a point that was made by firsthand experience by Steve and that is that young talent today is not expecting to be in a job for all that long. Their expectation is that they will be in many jobs and not —

PAUL VOLCKER: You mean by jobs a different company or a different position within a company?

MAX STIER: They largely look at different organizations, but I think one of the advantages that the government —

PAUL VOLCKER: They only stay in that particular organization three years on the average?

MAX STIER: It's Bureau of Labor Statistics data and it's kind of complicated in the sense that it's a mixture of both—some organizational with an organization. They look at whether it's a really different job, essentially, but it could be in the same organization or externally.

UNIDENTIFIED COMMISSIONER: You just need to look at Max Stier's resume in here to see that it is true. (Laughter.)

UNIDENTIFIED COMMISSIONER: Can I ask a question?

MAX STIER: I'm a very poor model and I recognize that.

UNIDENTIFIED COMMISSIONER: Can I ask a question that goes to that though? Both in terms of the talent pipeline you describe and this whole question of the changing nature of the job market. If we could have the kind of career paths for public service that we'd like to see, would there be flexibility and movement only within the federal government or only within government generally or does it include new movement back and forth to the non-profit world or the for-profit world or —

MAX STIER: It has to be the whole shebang. It has to be absolutely the whole shebang. In order to really attract the talent that you need, that's what the talent is looking for. They want those flexibilities and they're going to be looking to see. One of the issues—there was a poll released yesterday, I believe, by Mark Penn —one of the things

that's very important—it was of college juniors and seniors—that people are looking for when they talked about different changes is how easy is it to move out of the government if you move in. Are you going to have opportunities? It's a notion of resume building, perhaps, or career building. Are you going to be given the talents and skills that are going to let you succeed later in life if you take that job in the government? And the perception today is that it doesn't and that is something—and again there's a mixture of reality and misperceptions in some of these.

Well, that's a big difference, Mr. Chairman. In terms of recommendations we never want to make. It's one thing to think through recommendations about enhancing a federal workforce and another thing to talk about changing the nature of that career path to make it possible for people to move back and forth out of the federal government entirely, indeed out of government entirely.

PAUL VOLCKER: Let me make a general observation. I will not be pointed. I should be at this stage. One of the things that occurs to be in and out of public service is that the basic framework is really very different. And the private sector tends to be a big payoff by doing something right. You see it particularly in the financial world and there's very little expense—I'm talking relative terms—if I'm cutting something wrong. You will forgo some big benefit, but you might not have a big penalty. And the public service is the opposite. You do something right and there's very little reward. You may get a pat on the back, but you're not going to get a very big increase. It may be recognized, it may not be recognized at all, but if you do something wrong, you're screwed.

And that is why, in part, you don't have the initiative committed on younger people or new people in the government, because the superior's always going to worry that he's going to do something wrong that not only fouls him up, it fouls the agency up. And these new people don't even know what the problem is. They may not be doing something substantively wrong, but they're doing something politically wrong and that's just as bad as going something—maybe worse.

A great irritation I used to have when I was in the position of Chairman of Federal Reserve and you got these innumerable requests for Congress to answer questions, so you turn them over—I used to hate to do because you she never knew what anybody wrote. But I felt I always had to answer the questions and rewrite them half the time because there might be some things that will be okay and not okay, but they would be politically insensitive—(laughs)—and you knew you were going to get a big kickback from the congressman who'd ever get that kind of answer.

So what do you do? You don't give the guy even the responsibility to prepare the answers to these questions and do it by himself, because he's always going to be looked at. You don't have that to the same degree in the private sector, because the penalty isn't there. It's a matter of degree, but I think there is a difference. So you get a different kind of person. You get a big aggressive innovator who does very in the private sector and he may not do at all well in the public sector. He may do some things brilliantly, but he's going to get in trouble. I don't know how you cope with that because it does affect the way you wanted to design the personnel system, it seems to me. (Inaudible.)

CONSTANCE HORNER: My experience in viewing the private sector is that government work is often dismissed because there's a perception that there isn't a bottom-line responsibility. There isn't judgment. The judgment isn't you did it or you didn't. Responsibility's very diffuse therefore it's easy not to perform. It's a terrible observation when you consider how much responsibility there is to refrain from failure at least—people have in the public sector. But this is exactly—I never thought of this as a real barrier to bringing people in to the federal government for a period of time if they expect to immerge.

PAUL VOLCKER: Well, actually, you know sometimes you bring in people from the private sector who may be terrific investment bankers, but they're terrible in government because they don't recognize any of the kind of restraints that you're operating under.

RICHARD RAVITCH: I know people in the private sector that say the chief virtue of money is that it's measurable. (Off mike.)

PAUL VOLCKER: Since we have price stability is measured. (Laughter.)

RICHARD RAVITCH: No. It is the only measure of whether you're successful—(inaudible). One question and I'm sorry I was out for a second. You connected measurement with results. How do we quantify—I mean this world—universe that you all live in—people who are concerned professionally with the quality of government—how do we quantify this to get the attention of the people we have to get attention to in order to change anything? I mean, how do you quantify what you all know and what some of us who've been in public service know intuitively in many cases? How do you quantify the difference between what we have today and what we would like to have if we could get the quality of people in the public and keep them there—that we believe should be attracted to?

MAX STIER: Well I think there are —

RICHARD RAVITCH: What's the quantification methodology?

MAX STIER: I the answer is that there are some difficulties, but it is doable and it has to be done on a lot of different arrays. We will be issuing a state of the public service report that will include many of the measurements that are already available right now. The administration has a scorecard that includes, for example, human capital, which I think it is a very good starting point and then allows you to measure. OPM has agreed to do a government-wide survey of its employees—of the government's employees. That's fundamentally important.

There's a lot of research that shows—and Paul has been doing fantastic work on employee surveys, but we need a regular survey that government is conducting so that Paul doesn't have to make 200,000 random digit dials to identify federal workers. But that would be a very important tool to understanding how employees feel about their work environment, what they've done and what can be done to improve the situation.

They are customer satisfaction surveys, which are available, which I think are quite important. There are measurements of capacity of the workforce itself to get the job done. There are questions about measuring the diversity of the workforce. Is this workforce in fact looking like America? We know Hispanics are underrepresented, which I think is a very important issue. There are questions about the quality of the people coming in that you can answer in terms of your yield of people that you're trying to bring. They are questions about the workforce makeup. Are you meeting—each agency needs to have workforce plans to understand what kind of human capital they need to get the job done. They need that plan and that gives you the metric to measure whether or not they are succeeding in doing that. So I think there are quite a number of ways that can be done to measure and it's fundamentally important.

The final point I would make is that that measurement, as you suggest, has to be relevant to the American public in a way that's going to make the public understand why it's important to them. I think that issues like Homeland Security or the SEC need for strong enforcement with SEC is beginning to make that case, but I think a business case can be made to the American that they need a civilian readiness equal to military readiness on a host of issues.

PAUL VOLCKER: Ms. McGinnis.

PATRICIA MCGINNIS: I think all of you are familiar with the Council for Excellence in Government, what we do. Our strategic priorities really mirror your goals, so —

PAUL VOLCKER: You got a microphone?

PATRICIA MCGINNIS: So what we're doing—I have one.
(Cross talk.)

PATRICIA MCGINNIS: Can you hear me now?

PAUL VOLCKER: Oops. There's nobody here that can make it louder.

SUSAN HOSEK: Why don't you try this one?

PATRICIA MCGINNIS: I'll try Max's. Is this working?

PAUL VOLCKER: They probably didn't hear earlier. Nobody brought any attention to it.

PAUL LIGHT: We're getting three mikes.

PATRICIA MCGINNIS: All right. I now have three microphones. Can you hear me? Okay, great. So the work that we do every day is really related to your mission and I think I said this when we were together in New York, but I think it's really important. When you issued your first report you called this the quiet crisis and it remains a quiet crisis. I think unfortunately, it's not only quiet, but invisible to most people around the country and the members of Congress who represent them.

Can you all hear? Okay, well. I must have a softer voice. I will to speak up. But I was saying that the quiet crisis that was at the center of the report that you did in 1989 remains and Max pointed out that a large number of the recommendations have not been implemented. That's true and I think a big challenge for you and for us, your partners, is to turn up the volume of this quiet crisis. We have got to figure out how to get the attention of the American people, the members of Congress and people around government who are going to have to take action. I mean all of us will be working hard at this, but that's not going to be enough.

PAUL VOLCKER: 9/11 didn't do it in your judgment?

PATRICIA MCGINNIS: Well, 9/11 got people's attention, but I don't think that people are focused on this part of the equation—I don't. And I think there's an opportunity, though, in the Volcker Commission—(off mike)—very strategically important time. We have to take advantage of the opportunity. It's there, but I don't necessarily see it happening right now.

What I think might be useful to share with you, because there's a lot of work that we do that Paul's aware of and the staff and you have access to it on our website, is just some insights from a couple of polls that we've done over the last few months of young people and also some insights from a survey that we just did in the last ten days of our council principals—people who have served in government, now in the private sector and also of our Council Excellence in Government fellows. These are mid-careers managers in government, people who graduated from this program over the last 15 years—very interesting insights and I'll share that data with you as well, Paul, so you can look through it more carefully.

Let me talk first about the views of young people. There is some good news after September 11th and that is we see people are paying attention, interest in public service is increased, but it's not necessarily translating into people actually taking action to get into these jobs, to say they actually want to work there. We did a survey of 18- to 30-year olds that we released in conjunction with the awarding of the Elliot Richardson Prize for Public Service about a month ago and a fascinating insight, I thought, was that young people said if they were asked by a leader in government—the president, Collin Powell—(off mike)—more than half said yes. If I were asked to consider working in government I would do that; if they were asked to consider working in government by a teacher or a professor that would even carry more weight; and if they were asked to consider this by their parents that carries the most weight. And yet, sixty-two percent of young people say that they have never been asked to even consider working in government.

We did another survey of 15 to 25-year olds in January—that's a younger age group—in partnership with the University of Maryland. The headline for that survey is that the single-most important factor in young adults' sense of their own efficacy and their view of politics and government is whether their parents discuss these issues with them at home. So as the mother of two, this is not always obvious to me. In fact, I think it's a little counterintuitive, but I do think the influence of parents on the future of public service is enormous and we need to focus on that group as important messengers in addition to all the others that we're thinking about.

I also know that as an employer young people—and we have so many talented young people working at the council. The way they think about jobs, get their information, go through the hiring process is on the Internet and the government needs to embrace this in a creative, strategic, entrepreneurial way far more than it has. At this point, the private sector is way ahead of government in using the Internet effectively to market this job openings and, in fact, to actually recruit people. So this is an area of opportunity that I hope this commission will consider.

Another challenge that we see in attracting talented people to government service, particularly young people—and again I'm talking about attracting people—is the overall image of government and government workers in the entertainment world. Too many times on television and in movies we see the stereotypical portrayals of the

bumbling bureaucrats or corrupt politicians. And I know that you think that's a separate world, but in fact survey research shows that young people believe that the images they see on television are accurate. So, this is an opportunity—it's something that we are working on.

We have teamed up with the Annenberg Center at the University of Southern California to look at entertainment's impact on public service and civic engagement. We're starting a number of roundtables, next week, where we're going to be doing some brainstorming about this. We will also be doing some survey and content research. I think this is also an opportunity if advertising and prime televisions is expensive, this might be a way—if there is some success, to offer—again not just positive portrayals—that will never happen and we shouldn't expect that—but more sophisticated, more interesting portrayals of government that show the drama and the humor that we all know can come through and there are some television programs and films that do that can be models.

Of course attracting the best and brightest young people is not the only thing we need to be focusing on and, in fact, it's probably not the most urgent issue. This question of getting senior managers and leaders both into government and developing them is, in the short run, in some ways, more important. So our research with our own principals and fellows provided some interesting insights from the world of more senior people. Our principals tend to be people who served in appointed positions in previous administrations—it's a mixture, but that's the majority. And then our fellows are all career mid-level managers—ones who graduated some years ago have probably moved up to senior positions—but that's the universe there.

And I was very heartened to find that an overwhelming majority of both groups were very satisfied with the work they did in government and most would return to federal service—the numbers were very high. Our fellows said the same thing. They really liked the work. But when we asked them what are their three top concerns—that's an overall satisfaction index—the top three concerns in both groups were: too much bureaucracy, poor performers not being dismissed—it really poisons an environment that you're working in—and decisions being made based on politics instead of merit and that's also a perception of the public. That's the way the public perceives leaders in government.

Both groups felt strongly that the most effective solution to attracting and developing talented people to public service would be to recognize and reward creativity and performance among federal employees and teams. Now we didn't make the distinction about whether you should recognize an individual or a team, but this was more popular than offering salaries that are competitive with the private sector. That was not a top choice in terms of a solution. Also high on the list was making —

PAUL VOLCKER: Now, these are for what people when you say that? These are

—
PATRICIA MCGINNIS: People who are members of the council who served in government in the past and, Paul, this is important, our fellows who are mid-career managers in government. So it's a mixture of most senior and then mid-level.

Making the hiring process quicker and simpler was quite high on the list and our principals, who have now left government were very interested in making it easier to move in and out. Both groups like that as a solution, but our principals particularly chose it and most of them said they would like to come back in a temporary assignment or maybe even for a full-time position if it were easy to do so—easier than it is now.

And I—just to mirror what everyone has said workers do not view their careers along a linear path. Young people in particular want the flexibility to move across sectors—government, the non-profit sector, the private sector—there may be themes in their careers, but they don't necessarily have to do with the sector they're working in. So, there needs to be a lot more flexibility to go in and out of government.

There's another issue that I want to particularly emphasize because I haven't heard and that is issue of training and leadership development and here I think we have to look particularly to the private sector for the models and best practices that do not exist in government in many places. Companies are spending more today on training than ever before. In 2000, total training expenditures increased to two percent of annual payroll and some sectors like finance, insurance, real estate, transportation and technology spent even more than that. The number of corporate universities is projected to surpass the number of academic universities by the year 2010. So, this investment in learning and

training in the business world seems just as important as marketing or financial planning, but this is not true in government.

We tried to find out how much is spent in government on training and leadership development and the answer is that no one knows. The monthly federal government civilian payroll averages \$11.3 billion, so I would ask the question, is government investing two percent of that in developing its people? I'm sure the answer is no, but it would be very helpful to know what's going on here because this is a very important investment in the performance of government and in creating the kinds of work places and leadership and management that we are looking for to allow the risk taking that you're talking about, Mr. Chairman, and in fact value it.

So I do think that the creation of the Department of Homeland Security is an amazing opportunity to consider creating the kind of model of a personnel system that we would like to see throughout government and we should all be very focused on trying to help make possible a system that has flexibility, accountability for results, strategic and adequate investments in training and leadership development, and technology and the other tools necessary to make this department work very well on its urgent mission.

So, let me just summarize a few suggestions—I think you heard suggestions in what I was saying—that we would offer to you. First on the issue of attracting the best and brightest to government service, I think we nothing short of a campaign to ask people to consider government service and the message has to be conveyed by a number of different messengers and leaders at the top, parents, teachers, current public servants—I think particularly young public servants can be effective in recruiting other young people. We have to use the Internet more creatively—we talk about that—across the board.

I would also like to suggest, and we are thinking about this idea and would like to develop it further, that you consider the creation of a two year sort of Rhodes-type fellowship for bright, young college seniors to compete for, to spend two years in government service. And I would suggest that it not be limited to the federal government. In fact, I think it would be a much more interesting and rewarding experience if it were quite intergovernmental—federal, state and local. There really isn't anything like that that brings the real talent into the government arena at that stage of life.

We have to make it easier for people to move in and out of government and to take on these temporary assignments. Again, work with the entertainment community in addition to the news media and the advertising community. And then to develop and keep people in government—(off mike)—creating and sustaining the entrepreneurial culture that we're all talking about. I mean, some of that may require the flexibility that has to be provided through legislation, but a lot of it is about leadership and looking at best practices.

We work with the Kennedy School to recognize the most innovative government programs at the federal, state and local level. They're great models. They show people who beat the bureaucratic odds and got results and so we have to be able to spread those extraordinary results to make them more ordinary. Invest more in training and leadership development as we discussed. Another idea is to increase the mobility of civil servants, particularly senior leaders—not only within their own agencies, but across government. This really can mix things up and create some dynamism. At FIMA, for example, when James Lee Whit (sp) was administrator he came in and as they were turning FIMA around, and it's an amazing turnaround story, he asked all of his senior executives to change jobs. They all changed jobs—every single one of them and it made a huge difference and that doesn't happen much around the federal government.

And then, you know, compensation and benefits have to be competitive and performance based, but I think what's really important is to get the facts and understand what the relevant market context is in the private and non-profit sector and you've heard some insights about that.

So we're looking forward to working with you to try to make more than one-third—(off mike)—come true.
(Laughter.)

PAUL VOLCKER: We very much appreciate the cooperation we've had so far and we look forward to more. Good to have you.

Mr. O'Neill, you have the difficult or challenging task—opportunity of telling us what's right or wrong about all of this.

ROBERT O'NEILL: I'm standing between you and the end of your three o'clock meeting.

PAUL VOLCKER: Are we supposed to end at three o'clock?
(Cross talk.)

ROBERT O'NEILL: The Academy's challenge was to synthesize its recent human resource management research and to assist the commission in examining current issues relative to the state of the federal service. To use your time well—you have a copy of these remarks and a copy of the presentation and the report so I'm going to skip, basically to the function of the recommendations so that you can get, probably, to the conversation that you want to have. As we suggested, the academy identified twenty-two studies conducted by our Center for Human Resources Management, which are particularly relative to the objectives and concerns by the commissions. The studies addressed fundamental life-cycle issues for public service, including recruitment, retention, competitive pay, performance management, development and leadership. Since the original Volcker Commission, the public service environment has evolved from downsizing and restructuring to recruiting, winning the war for talent, strategic source and workforce planning. The Academy's studies point out that government faces the need for even more flexible, streamline merit processes to cope with the changing market conditions, technologies and new competencies. Flexibility is the key, not designing new monolithic systems to replace existing ones. The Commission can stimulate action to address a new context for civil service employment by advocating a series of public discussions designed to address those questions as, should the traditional notion of merit be updated? How should a career in civil service be defined? How important should tenure be in the civil service system? Can such private sector concepts as at-will employment and at-risk pay work in the public sector? And is the federal government a single employer or a multi-employer conglomerate? Achieving consensus on these questions is fundamental to establishing a direction for the future reforms. The Academy research indicates that the following specific areas of reform should receive priority attention.

First, abolish the general schedule and develop a modern system for defining and valuing work. At a minimum, any new system should be market driven, incorporate broad banding more feasible and provide for performance and variable pay as a greater proportion of overall compensation. The specifics should be left to agencies within broad government-wide parameters and with the involvement of workforce in union representatives.

Moving to a true market-based compensation system must include a more balanced approach to three dimensions of equity: internal, external and contribution. Pay for new hires should be determined by the mix of competencies and skills that each individual brings to the job and by market demand for those skills. De-linking pay from other schedules, including the executive schedule and Congressional legislative pay schedules, will help to alleviate compression problems and provide the opportunity to compete for world-class talent.

Second, improve managers' capability to achieve a high-performance work environment. The objective should be to ensure the performance management processes reflect clear standards of accountability and for organizational results. Performance planning should receive more emphasis in agency performance management systems to provide a clear link between the employees expected contributions and the organizations strategic objectives. Managers should receive sufficient training to enable them to communicate performance expectations effectively and to deal with outstanding performance and performance shortfalls. Managers must understand that they will be evaluated on how effectively they deal with poor performers and how they recognize the contribution of high performers. Some government-wide systemic solutions should be considered, including streamlining the appellate process to achieve the most expeditious and credible disposition of cases possible.

Third, continue to simplify and improve the hiring process. We need to accelerate the strategies to streamline the hiring process, including adopting the categorical ranking procedure in lieu of the current numerical score order of the Rule of Three. The administrative careers with America examination system should be terminated and agencies should be permitted to hire for professional and administrative occupations using techniques that are proven to be operationally efficient and more effective in meeting diversity shortfalls. Implementing a career intern program and expanding the college co-op programs are essential. There should be a greater emphasis on mid-level entry and

development in retraining talent above the entry levels, including presidential management interns, following the completion of their rotation assignments.

Fourth, take aggressive action to instill a continuous learning philosophy is the basis for all training and development activities. The administration should require that agencies' strategic plans include specific requirements and needed resources for training and re-training to develop the confidences for mission accomplishment—(audio break, tape change)—can be treated as an inherent requirement. Remaining limitations on college level course reimbursement should be removed. Retraining expenses should be authorized for skill development not directly related to the performance of the employee's current job but may be consistent with strategic workforce plans or future mission needs.

Five, institute a corporate approach to managing succession leader develop in the efficacy of the senior executive service. Doing this effectively requires direction setting and some central management systems. The first priority should be restructuring the senior executive service to redefine its composition. Distinguishing among general managers, functional specialists, and professional positions should be the primary outcome. A new process is needed for rationalizing the mix of executive level assets required for, one, a mobile leadership core; two, management of key agency functions and occupations; and three, leadership of government-wide functions. The current bi-annual review process only addresses management of key agency functions.

The senior executive service should be converted to a true rank and person system with open range for setting pay levels based on the market and performance and results achieved. To ensure accountability for results, legislative authority should be given to executives to operate under time-limited performance contracts with options for renewal. Those who do not meet the terms of their contracts can be reassigned or terminated. To retain key executive expertise for longer periods and to assist in developing new executives, phased or partial retirement should be authorized for part-time entering, coaching, and internal consulting. The Office of Personnel Management should be provided with stronger chartering capability to broker inter-agency, inter-governmental, and industry exchange developmental assignments for senior executives and candidates.

Thank you, Mr. Chairman. This is a summary of the recommendations provided—(unintelligible)

PAUL VOLCKER: Well, thank you. Can we get a copy of your report? - meet my objectives at the end of year. That's the right thing.

PAUL LIGHT: It could be.

PAUL VOLCKER: I have a general question for all of you. I think we struggle in one way or another—a lot of you were talking about the need for flexibility and pay for performance and all that stuff, but there have been warning notes at the same time, and there were this morning from the employee groups—you know, it doesn't work. People really don't want it in the end in government. The managers don't want it. They don't want to make a differentiation. You said they don't want to fire people, or somebody did this morning. Same way in the private sector to some degree. There's a great feeling that you're going to lose some sense of consensus and uniformity by giving all this—nobody knows how much flexibility we're talking about, but there is certainly a little tension here between management discretion and flexibility and feelings of fairness and practicality. I used to resent the amount of time I used to spend in government when they introduced the bonus system. There would be the most controversial, lengthy meetings about whether somebody got \$8,000 bonus or a \$10,000 bonus or \$3,000 bonus, and all you really knew was that the guy who got a \$3,000 bonus was going to resent the other guy who got a \$5,000 bonus, so it wasn't enough to make much difference anyway. I don't know how we deal with this.

ROBERT O'NEILL: I'll be happy just to give you—and I won't say this is anything but anecdotal, but I think there are three points that relate to that. I think first—and I think all of us have said that in some way—I think it is really about the alignment of a recognition and reward system to the accomplishment of what the agency is about, and so I think part of it is that it is not just about bonuses or dollars. In fact—I can just give you my own personal experience—when you ask employees, in many cases, about what it is that they would be interested in if you were talking about rewards that would be motivational to them, money is in the list, but it is not on the top of the list. Often, first on the list is the opportunity to receive professional development training and other things to enhance their skills. Second, typically it is to be involved in the next most interesting project that that agency is going to be

involved in. Third, typically has to do with money, and so I think often we focus the discussion around the money part. It's not insignificant, and I think there are issues that we ought to be able to deal with with pay and structured bonus, but it is not what I think is the essence of the question, which is the alignment of the recognition and reward systems around what you're trying to accomplish. So, I think there's a lot—and I think it is clear from private-sector, public-sector, and non-profit sector experience, the more one engages the workforce in the design of that alignment, the more likely it is that it has some broad-scale support once implemented.

PAUL VOLCKER: I always think you'll find—your experience in state and local, local particularly—it's easier for somebody coming in a city or a town or maybe even a state to feel he's making a difference because the operation is smaller, and you're closer to the people. You're closer to the output.

ROBERT O'NEILL: Very much so.

RICHARD RAVITCH: Well, I don't know whether this is—now, we can go to a general question, but I was interested—all of you talked about this more or less as a sort of monolithic problem with public service, and to whatever extent, we're all preachers of our own experience. It seems to me you have a very different problem if you're trying to get a bright kid with a new junior college degree as a computer programmer, and you want him to come in and work in the government rather than work for an insurance company or bank, and money is probably going to make a difference in this case. But, if you take a lawyer who's got the capability of dealing with a financially-based government agency like the SEC or the FHA or a regulatory agency, it's a different set of skills, different level, and different kind of satisfaction, and my question is if it is correct that different things incentivize different people at different points in their career and on different educational patterns and different eligible tasks in government where you would want them to serve, can you really have a uniform answer to this problem, or do you have to differentiate between the different kinds of public service that you're trying to improve the quality of? It's a question for everybody.

MAX STIER: I think that Bob gave in part an answer to that in the sense that I think that you want has to permit the kinds of flexibilities to allow individual agencies to design the processes that are going to be most appropriate for them so that there are elements that certainly have government-wide applicability, and there are tools that can be provided that could be used in different ways for different agencies and even within agencies to accomplish the job that they need to have done, but I might add, though, that in part, it's not simply an issue of law, structure, regulation. It's very much an issue of culture and leadership, and I think that back to Chairman Volcker's point, that I think I agree entirely with Bob on, really when you talk about management flexibilities, you have to have a management core that is capable of using those flexibilities in appropriate fashion. Otherwise, you don't have the trust from the employees, you don't the actual accomplishment of the goals that are trying to be achieved, and so, again, I would strongly recommend that in approach here, we need to see an integrated, comprehensive approach that does not only focus on somebody's dry flexibilities but on the actual management capacity of these organizations to perform, and I think that gets to your point. If you have a good manager, they're going to be able to solve the problems in their individual context as long as you give them the tools that they need to accomplish it.

STEVEN KELMAN: I mean, in the private sector as well, there's not one-size-fits-all, and it is much easier to do individual, let's say piece-rate incentives, for people—at an individual machine, they're producing an individual product, and I think you find in the private sector, the more you move from that model, the more employee level incentives, certainly individual incentives, become problematic. I think, similarly, in government, there's going to be a variation.

RICHARD RAVITCH: I think that's true, but if I could point out that in the '60s, when there was the intensive interest in urban problems and public service and getting schools created. Yale created a business school that was really a public service school. Duke created one. Every major university had programs in urban studies, and a lot of young people were filled with idealism about coming in and making it a better world and rebuilding our cities, and they were all studying urban studies.

There's hardly an urban study program left in the university, and people finally woke up 20 years later to the fact that we needed plumbers and electricians and school teachers and not urban experts. And 20 years after that, I taught up at the Kennedy School for a year after one of my public service stints, and there were hardly—a very tiny percentage of youngsters were interested in going into public service. So it's vogueish, and I certainly agree we have

to influence it, but we have to have a consistent way of making professional—particularly to me at least, professional people find that the in and out process is something that will benefit their careers and will provide them with a kind of satisfaction that, at least in my value system, can't be equaled in the private sector. I think that's a very different problem and requires different solutions than the universal effort to make public service more competitive from a dollar point of view with private enterprise.

PATRICIA MCGINNIS: I think what you're really talking about is the need for some strategic planning in this arena. I mean, to look at what the challenges are in the future and what kind of a workforce we're going to need, what mix of people. That workforce planning has not been given enough attention and has not strategic enough. I think that might at least lay out the landscape of what you're talking about because those differentials have to be made, both in recruiting and in the culture.

SUSAN HOSEK: In our experience, actually, it's done rarely. It's done rarely, but not just in the public sector. It's surprising how—we've done some work in the private sector, and basically, leveraging off the work that we do for Defense, and there's less sophistication even there in doing this kind of planning. I wanted to make a comment on the paper for performance. I have reviewed that literature fairly recently, and it's actually fairly commonsensical. Basically, what you need to do is to reward people for things that are related to the organizational objectives and over which they have control. Giving people rewards for things that they have nothing to do with doesn't work very well. In fact, it sort of tends to bother people. Also, these things have to be fairly objective. If it becomes an exercise in my deciding which of my employees I, to them, like the most, and therefore, I'm going to reward them, then I think you do get into very serious issues of fairness, and one of the problems that public agencies have is, particularly at the management level, is, unless they're producing something, it can be very difficult to figure out how you do measure performance in a way that everybody, including the employees, will agree is fair and reasonable. That doesn't mean it can't be done. When people raise these kinds of measurement issues, I always point to the fact that 25 years ago, we couldn't measure the quality of healthcare either, but we can in a very real sense today. So, if we could do that, I figure we can—in most cases, we can probably do this.

KEN DUBERSTEIN: Mr. Chairman, I think the recommendations that collectively the panel made are absolutely urgent, important. They're all in the right direction. But, I also am concerned that the political constituency for change is seated alone at this table. And I am a bottom-line kind of person, and I'm sitting here, trying to figure out how are we going to get everything done? I mean, what's the bottom line? They're great ideas, whether it's two-year Rhodes scholarship or influencing the entertainment community or having a campaign for public service or changing ethics disclosure forms. How are we going to get it done? Let's be practical, and maybe if the panel could spend five minutes, Mr. Chairman, explaining recommendations about how to get it done, not the substance, that might ease our report as well.

PAUL VOLCKER: Well, if they have a good idea in that connection, I insist—if any of you have a good idea, they can have more than five minutes.

You didn't hear my speech after lunch.

UNIDENTIFIED COMMISSIONER: No. (Laughter.)

MR. VOLCKER: I'll give you a copy. (Laughter.)

BRUCE LAINGEN: Mr. Chairman, that's such an important point because we're talking about implementation. However good this report is, however eloquent the recommendations are, you got that problem of implementing it. The first Volcker—this group, it seems to me—I'd like to hear what they think. The first Volcker Commission made a recommendation that there be a standing, permanent council on public service. It became reality. It had representation on it of the Congress, the private sector, government, that functioned for a year or two, and then we ran into a change of political administrations, and it died. And I just wondered if—do you all that a recommendation of that kind, any body of that kind, would be useful? Would it be superfluous to what you all do already?

PAUL VOLCKER: Yes, I—just to put a little color on what you say, we made these recommendations for a pay decision which there was some modest response to —

BRUCE LAINGEN: Yes, there was.

PAUL VOLCKER: —and then the election campaign, Mr. Bush, I guess, in making his initial campaign speech on Labor Day, said we're going to—one of my priorities is going to be that we're going to cut down, reverse—actually have a reduction in federal pay. And Mr. Clinton got elected, and he put in his inaugural speech, I'm going to make government more efficient. I'm going to get rid of these unnecessary commissions. One is the National Monuments Commission, and the second one is some monkey business about a public service commission. We don't need either.

MAX STIER: Mr. Chairman, I think that I actually spent ten minutes on the question that Mr. Duberstein has presented. The Partnership for Public Service has agreed and initially when the Volcker II Commission was being formulated, that we would take a role in trying to implement your recommendations, and clearly, the how is equally important to the what.

You don't want to be back here in another 13 years with another report, and again, it's not so much that a third of the recommendations were actually accomplished. You had that—(inaudible)—those recommendations, and that's it, and we need to do much, much better, and I think the prioritization has to be higher right now, and what I would suggest here is that in part, in the way you formulate your report, your focus on that how is going to be very important in designing your recommendations and that, again, is something that we'd very much like to work with you on. You were a terrific chief of staff. I think we need to mobilize in the same way that you mobilized for the president an effort to get done the various components of what needs to happen here, whether it be legislative or involving other areas, like Pat mentioned on the entertainment community. I think all of these things need to be done, and we need to envision this as an exercise that involves very much more than the people that either on this panel or that panel and to activate different communities so that they understand the need for action here. On our board of governors, we are blessed with people like Chairman Volcker. We need serious voices in the business community that can make the case in a compelling way that it is important for them, for our business success, that we have an active, vibrant civil service, and I believe that if we engage in an effort to expand the table and approach it in a way that you approached your job as chief of staff, that we can very much get things done here, and we can use vehicles like the Department of Homeland Security as a means for accomplishing these goals on a variety of levels, both in persuading the public as to the need and in implementing real reform. We have a new agency right now that is going to have flexibilities greater than somewhere than currently exist in the—(inaudible)—system. We're going to have a major undertaking that has substantial consequences, and I think that can be a driver for some of these changes as well, but rather than take up more than the ten that I've already done on the how, we are working on a sort of, again, five-part strategy of implementation. One of the major elements is measurement so that you have a means of pushing off and demonstrating to people where you are and where you need to get to, and I think that's going to be a critical exercise as well.

G. CALVIN MACKENZIE: Mr. Chairman, I think there's a historical lesson here as we did in our past create a civil service. We have amended and changed that system a number of times historically. Somewhere in all of that, there was a momentum for change that produced that. I think we ought to be aware of the danger of thinking there's only one or two ways to bring about change in our political system.

There's going to be no tidal wave of public passion about this issue. There are going to be some conglomeration of campaign contributions that are going to be incentives to lots of members of Congress to jump on this bandwagon. It was interesting this morning in listening to Frank Raines talk about how often he could look, as budget director, at these issues and think it makes great, good sense to raise salaries of—(inaudible, cross talk)—there was no political pressure, but well, that seems to me a role of leadership and a president, even a budget director it seems to me can say, this is the right thing to do, and I don't have to wait for someone from the outside to tell me it's the right thing to do and make it happen. I am a leader, and I can make it happen. Our role in this commission and as individuals who intersect from time to time with people in those positions of authority is to keep telling them that this needs to be done and that there is good research that backs it up and good rationale for this and a lot of thoughtful people who think it's a wise thing to do.

PAUL VOLCKER: I'm not quite so pessimistic. I think things are a little different now. Obviously, it's a big problem, but here you have the White House cooking up this sweeping reorganization of government in some boiler room underneath the White House, and the thing, I'm told, is going to pass by September. I mean, this is a —

KEN DUBERSTEIN: What's happened to your cynicism, Paul?
(Laughter.)

PAUL VOLCKER: Well, my cynicism may be a bad idea, but it's —
(Laughter.)

PAUL VOLCKER: —and you have—a number of these agencies have gotten some degree of flexibility. It may not be done right, but it's changed. There's something going on here that makes people burst out of the old framework just because the internal pressures, I think, are great under the boiler, so to speak, but also the external thing. We did have September 11th, we do have obvious problems for government, we've got these problems in the private sector that require constructive legislation.
(Laughter.)

KEN DUBERSTEIN: But you've got to get past the Congress.

PAUL VOLCKER: But it's got to get past the Congress and certain opposition that still exists, but at least it's got a chance.
(Laughter.)

PAUL LIGHT: One of the things that is different here is that I think the threshold for change is lower given that we're going to have all these retirements. We have an opportunity because we're going to be hiring or not filling positions to make small changes that have big impacts. Imagine for a moment if we were to say that no job can be filled for six months after it's vacated, and it has to be evaluated for its merit and its contribution to the mission of the agency, but you can't fill it. Now that's an idea with political traction but would also force agencies to say, we better rationalize the filling of these jobs. We've got half of the federal workforce leaving in the next ten years. That's a good thing in terms of change, and how we respond to it, we have a tremendous opportunity to just make small adjustments that could have very large impacts. You never know.

KEN DUBERSTEIN: Certainly, I think the Volcker Commission can take a leadership role in this, but it is going to require all of us day in and day out to make the kind of political constituency for change so that mothers for public service will encourage their young children to be career civil servants.

PATRICIA MCGINNIS: Well, it has to look, I think, a lot like the campaign but not partisan. I mean, we all know what successful campaigns look like and what the elements are. We have to somehow create that here, and that's not the usual way that people go about civil service reform. So we're talking about a different—defining this in a much bigger, more significant, more public way.

PAUL VOLCKER: This will unquestionably be the subject of our hearings tomorrow when we have the political types coming, and we can press this issue, I think, with them at this point, but meanwhile, I think we have reached a bewitching hour. We go could on, I'm sure, for a long time, but the Commission actually has to have a meeting so they can plan a little more work, and we will do that, but we will let you go, and we really do appreciate your attendance.

You obviously have stimulated interest, I think, not complete but some considerable convergence. We look forward to incorporating relevant thoughts of all your reports and our report, which I'm sure will give it additional cache and enable us to get our work done on time. Thank you very much.

MAX STIER: Thank you.

(End of event.)