

A Public Hearing

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Day Three: The State of the Public Service

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PAUL VOLCKER: Ladies and gentlemen, we are delighted to have you here. We are here under the auspices of the distinguished Brookings Institution, which has new leadership here with us today, and I just want to turn it over to Strobe Talbott for a moment to say what he wants to say and greet you all.

STROBE TALBOTT: Thanks, Paul.

I just wanted to take an opportunity that arises on this day here at Brookings to first of all welcome our visitors to these premises. It's a hot midsummer day and I think it's a credit to you as well as to the quality of this program that you are willing to join us. I have a lot of reasons for being very optimistic and gratified at the chance to be associated with the Brookings Institution and none is more compelling or timely than the one associated with the two Pauls, that is our chairman Paul Volcker and the moving force behind the Center on Public Service Paul Light. I've already had a chance to learn a lot from this Paul and from this other Paul, the very tall one, going back over many years, stretching back even before 12 years ago when he chaired the first commission.

The fact of improving public service and the experience and tradition of public service in this country is an ongoing and unfinished piece of business, so I think it's very appropriate, if Paul would agree, to keep the work in progress going forward.

To the four members of Congress who are here let me thank you particularly on behalf of Brookings and myself for giving some of your own time to this effort. Among other things, it underscores the importance that Brookings attaches to working closely with the legislative branch on a bipartisan, nonpartisan basis.

I will to the extent possible, given other demands on my time in the months and years to come, participate as actively as possible in the work of this commission, not least because it gives me a chance to come under your leadership, Paul, so back to you.

PAUL VOLCKER: Well, thank you, Strobe. I think we all appreciate your leadership in taking over Brookings and your interest, particularly, in this commission. I might just say one word. We are indeed delighted to have you here. You may be aware that the chief justice appeared before us on Monday and I think that was indicative of the strong interest they have particularly in one aspect of governmental reform, but the question we continually get articulated most recently, he never forgets, one Ken Duberstein who says this is all fine, all this talk you're doing but how do you ever get any action.

And I like to take some encouragement from the fact that you are here, reflecting your own interest in action, the presence of the chief justice and others, but that is a challenge. We are all filled with what we think of as potentially good ideas about how to get some government reform. We are certainly convinced it needs some organization, but converting that interest into action is the challenge and I know you've all been involved in it and Senator Voinovich has legislation that goes some distance in this area and I know Steny Hoyer and Connie Morella have been through this battle before, but that is a crucial question that we're all going to have.

We don't want to confine ourselves to reforms around the edges. This is not a commission on pay; particularly obviously that enters into it, but we are looking at it in a rather broad way and how we can convert that into action, into leadership of all of you, Senator Akaka and others who are in a position to drive this process is very important

and we want to remain in touch with you after today and get your advice not only on substance but on how we go about it.

So with that much introduction I think we have agreed to an arrangement where Congressman Hoyer can go first, given that he's got to go chair a committee very shortly, and we'll just go down the line, if that's acceptable. We welcome your statement.

REPRESENTATIVE STENY HOYER: It's acceptable to me and I thank my three colleagues for agreeing to that.

Mr. Chairman and extraordinary distinguished, experienced and knowledgeable members of this panel, I want to thank you for inviting me here this morning and I want to thank everyone for your commitment to public service, which has been amply demonstrated through the years.

You've heard this before but it bears repeating that your talents and accomplishments not only have benefited a grateful nation but also served to inspire, in my opinion, future generations of public servants.

I also want to thank you, Mr. Chairman, for indulging my request to speak first. It's a distinction I would not have sought were it not for the fact that debate on the Treasury Postal Bill, in which we will take some action, at least on pay—I realize this is not a pay commission, but as Connie Horner knows so well, usually when we consider this bill we have some disagreements with the executives and trying to enhance pay.

Our federal civil service today stands at the intersection of opportunity and peril, in my opinion. In the aftermath of the terrorist attacks on our nation, Americans witnessed the great courage, commitment and tenacity of its civil servants at all levels of government.

As Paul Light and others have noted, the catastrophic events of September 11th provided a vivid and powerful reminder to the American people about just how important the public service is in times of crisis, and I think all of us would argue in times not in crisis as well.

In my view, we have an opportunity to turn national tragedy into national triumph by demonstrating to the American people, particularly the generation just entering the workforce, that employment in the federal civil service is not only honorable and patriotic but also rewarding, both in terms of personal and professional fulfillment.

However, having said that, all of you know and the reason for your convening is that our challenge is substantial. First, only 13 percent of college graduates said this spring that they had seriously considered working for the federal government, according to a poll conducted by this very institution.

Secondly, many of the government's actions in the aftermath of September 11th from the failure to investigate warnings of terrorist flight training to the issuance of visas to the hijackers months later only perpetuated the perception of an inefficient and inept civil service.

And third, the ongoing debate over the creation of a department of homeland security has caused uncertainty over the rights and responsibilities of thousands and thousands of federal civil servants, as well as presumably those considering a career in public service. I'm sure Ms. Morella will speak to that, because she has taken action on that issue.

Just two days ago, for example, House Republican leaders, managing the creation of a new homeland security department, decided not to extend full service protection to the department's workers. And I might say we're going to have a bill I suppose tabled by Mr. Arney tomorrow; we're not sure exactly what that will include.

The backdrop for this hearing is nothing short of—dire may be an overstatement; certainly serious is not. By 2006 46.5 percent of federal employees will retire, according to estimates by the Office of Personnel and Management. Within the managerial ranks the situation is even worse: 49 percent, half of the managers by 2006 will retire.

Thus, the quiet crisis in the federal civil service identified by the first Volcker Commission 12 years ago threatens to become an impending disaster unless we seize this opportunity to strengthen public service and meet this challenge and recruit able, talented, highly motivated individuals to replace these who will retire.

Today I want to focus on four areas that are crucial to a healthy and successful civil service: Providing fair pay for federal employees, recruiting and retention tools, protecting employee rights and creating a positive environment that respects federal civil servants, and civil servants frankly across the board.

Pay is very important but it is not a panacea. We cannot expect to retain and recruit the best and brightest if we fail to pay them wages comparable to those in the private sector. The bipartisan Federal Employees Pay Comparability Act, signed into law by the first President Bush in 1990, was intended to reduce this pay gap, but this and previous administrations in a bipartisan way have not followed it and the result is that the disparity in pay between the public and private sectors continues to grow.

I've discussed this issue with the directors of the Office of Management and Budget in both parties, from Leon Panetta to Frank Raines to Jack Lew to Mitch Daniels. I believe the time has come for us to discuss what alternative, if any, needs to be put in place to address this issue.

If the administration, or administrations, does not believe that FEPCA represents an appropriate standard or policy, then it is, in my opinion, incumbent on the administrations to come up with an alternative process. They have not done so in any administration. To do otherwise only undermines the integrity of our civil service pay system.

Furthermore, we send an unmistakably negative message to our federal civil service when we request larger annual increases for men and women in uniform as opposed to those on the front lines but not in uniform, ask the INS, ask the Customs, ask FBI, ask CIA, ask NSA, who all perceive themselves correctly to be on the front line.

Yet that fallacy is more self-evident today than ever before and civil servants such as Secret Service and FBI agents, FEMA officials and CDC and NIH scientists performing crucial public safety and health functions are treated disparately.

As President Bush stated last week, we owe a huge debt of gratitude to those public servants who quietly stand guard on the rampart of freedom.

Secondly, tools for recruitment and retention: I agree with Paul Light, who wrote recently, and I quote, "The way to make federal government a destination of choice is to make its jobs more effective and interesting."

Beyond that, we need to create new incentives to retain and recruit valuable employees, everything from affordable health plans to flexible workplaces to encouraging telecommuting to providing child and elder care services. We've moved on those issues. We are not where most of the private sector, high tech industry that wanted to recruit the best and the brightest were at least during their most active days.

Thirdly, we must ensure that flexibility does not become a codeword for favoritism. The federal civil service was created for a reason, to prevent arbitrary and capricious employment decisions based on politics and patriotism rather than competence and professionalism. In the wake of September 11th Congress passed legislation creating the Transportation Security Administration and provided it with a great deal of flexibility and authority to hire new employees, primarily law enforcement officers, and that seemed reasonable.

Our best intentions cannot obscure, however, the result, the cannibalization of other federal law enforcement agencies, which cannot compete with the Transportation Security Administration in terms of pay. In other words, the price we pay for uniformity is the competition within our own system and we are losing very substantial numbers of law enforcement officials from the FBI, from ATF, from the Capitol police, from the uniform division of the Secret Service that guards the White House. So at the time that we are enhancing TSA, we are diminishing others. That's the price we pay for uniformity.

Now, the obvious answer to that is going to be that the others will try to come up and compete and we will constantly be chasing our own tail.

Furthermore, we must ensure that flexibility does not become a euphemism for getting federal civil service rights. For example, the proposal for a new homeland securities department would allow the secretary to waive all provisions of the nation's civil service law Title V, including those that prohibit patronage, protect whistleblowers, provide for collective bargaining and ensure health and retirement benefits. I do not contend that that would be the intention for necessarily the actions the secretary would take, but it would give that kind of flexibility; again, abandoning what was a uniform system to provide for fair treatment across the board for a system that will be particularized by agency and by needs as seen by the particular manager.

This is simply wrong and unfair and in my view threatens to undermine our efforts to strengthen the civil service. Lastly, we must foster respect for federal civil service. This is somewhat obviously an intangible, but a critical component. There are few if any members of Congress, there are few secretaries of departments, if any, Donna Shalala being a perfect example where she took, and many of you who have served in government, extraordinary pay cuts to go into government. Why did you do so? You did so because you were compelled by a desire to serve, a pride and love for your country and a pride in the service that you would perform. But if that pride were not present, would you have taken those jobs?

Ed Meese in the Reagan administration was one of the leaders in trying to get federal pay up. That may surprise some people, but the reason was because it was his job to hire mid-level managers. You can hire a secretary without regard to pay, but when you get to hiring the 35 to 50 crowd that has kids in school, that has mortgage payments to make and have not reached the upper level or have not made a lot of money early in life, pay becomes a very important aspect to them, but also are they perceived by their public and by their Congress and by their executive and president as being people of worth and importance to our country. It is an intangible but I suggest to you it is critical.

For too long the civil service has been monolithic and amorphous. Washington bureaucracy has been a punching bag for both political parties. I have gone to the House floor on numerous occasions and said to my colleagues stop using the word bureaucracy as an epithet. If you do so, it will be inevitable that young, talented people will not want to come into such an organization.

If we are serious about seizing this opportunity to invigorate our federal service and preventing the quiet crisis forecast 12 years ago, Mr. Volcker, by you and your colleagues, from becoming an impending disaster we must stop denigrating the men and women who serve us in the civil service.

President Kennedy once remarked, and I quote, "let the public service be a proud and lively career and let every man and woman who works in any area of our national government in any branch at any level be able to say with pride and with honor in future years, 'I served the United States government in that hour of the nation's need.'"

That was true then, of course, but the hour of the nation's need is repeated generation to generation. Some would say such is now an hour. It is incumbent upon us to ensure that as we confront this quiet crisis we will be able to recruit from the University of Miami, from the University of Maryland, from campuses across this country, the best and the brightest to serve our nation as all of you have done in years past.

Thank you, Mr. Chairman for this opportunity.

PAUL VOLCKER: Well, thank you very much for emphasizing both our relevance and importance and some of the problems of reconciling needed flexibility with needed uniformity and standardization. It's a tough problem. Senator Akaka, we're delighted to have you with us this morning and hear what you have to say, so proceed as you would like.

SENATOR DANIEL AKAKA: Thank you very much. Good morning, Chairman Volcker and distinguished members of this commission. And when I say distinguished, I mean distinguished by the service you've given our great country, and I feel humbled being before you this morning when I join my colleagues this morning to discuss not only the challenges but the opportunities facing the federal workforce.

As Chairman of the Subcommittee on International Security, Proliferation and Federal Services, I have held and participated in a number of hearings on this very subject, and I want to thank this commission for adding your voice to this critical dialogue on public service.

A couple of years after I came to Congress we passed the Civil Service Reform Act of 1978, that legislation responded to many of the same issues confronting our government today. Like the latest proposals, this act sought to institute more effective recruitment, management and retention tools. I believe the federal government was strengthened as an employer because of CSRA.

Today, the Federal Service Merit Principles serve as a model for equal employment practices to both the private sector and foreign governments.

However, the continuing decline in trust of government and the public's view that federal employees are not doing their jobs creates a barrier that no amount of managerial flexibility will overcome. No wonder surveys show that federal employees' morale is dropping. Unless we foster a positive view of public service we will be unable to attract talented young people into government employment.

And it's not new, unfortunately. This was the same conclusion reached by the first Volcker Commission over 12 years ago. It's not new. Yet for those of us who care about the future of civil service we are faced with tough questions: How do we advertise the government as an employer of choice if agencies lack funding for incentives, for instance, like money to implement fully the student loan repayment or training programs? How do we balance recruitment and retention and retirement goals with the administration's goals for competitive sourcing? More broadly, how do we ensure a commitment from the highest levels of government, including Congress, to allocate needed resources to achieve a strong educated and productive workforce?

Four months ago I chaired two days of hearings on civil service reform proposals. Although the approaches varied, I felt there was general agreement that there were issues that must be addressed before passing civil service reform legislation. These include the pay and benefits gap between government and private workers, the lack of funding for recruitment and retention bonuses, an uneven application of performance standards, the need for better training not only for managers but for the workforce, and administration's application of outsourcing quotas.

Moreover, shaping a legislative proposal that responds to the concerns of management and labor will require strong, strong leadership and will also require a healing of the distrust that has built up within the employee union and a desire on the part of the administration to communicate openly.

Until these culture differences that have built up over the years are reduced there will be little desire on the part of either side to compromise.

I find myself coming back to the need to honor those who choose public service. I am pleased that anti-government rhetoric has abated somewhat in the wake of the terrorist attacks last fall. Although recent Brookings surveys show that distrust of government is climbing once again, other studies indicate that a higher percentage of young Americans are considering federal service as an employment opportunity. I hope those thinking about federal employment will see that there is a talented and professional workforce helping to protect our borders and support our armed forces both here on the continent and abroad.

I was pleased that the president took time last week to recognize the federal employees that have been a part of the country's recovery since September 11th. I firmly believe that our federal workforce is this nation's backbone. I want to conclude by thanking my colleagues here at the table who are speaking about this. We will continue to work together for the good of the government and its employees. I also want to refute the notion that Congress cannot enact civil service reform legislation. I admit that it is not easy to forge a consensus when dealing with such diverse opinions and constituencies. However, my friends and I are working together to break down these barriers and I believe we will be successful in moving some government wide proposals.

We must also remember that the creation of a department of homeland security moves the federal government in the direction that will have a significant impact on the federal workforce now and in the future.

As I have said time and again, a strong workforce comes from having the right people with the right skills in the right place at the right time. Only then will government operate in an effective, efficient and economic manner. And I cannot help but remember the report of Hart-Rudman, which stated the mainstream of American power around the world depends on the quality of U.S. government personnel at all levels. And this is our challenge for the Congress.

I want you to know that I'm honored to have a role in making this happen, and again thank you, Mr. Chairman, and we've been working so well together, I have been with Senator Voinovich, and I, of course, sponsored his works, so thank you very much, Mr. Chairman and members of the commission and I thank you for your service to the federal workforce. Thank you.

PAUL VOLCKER: We thank you for being here and we are indeed honored to have you and your colleagues with us this morning. I hope you can stay for a little while when we have some discussion. Meanwhile, if I can return to your associate who has been concerned with problems of public administration in many different guises over the years and has been a consistent advocate of good government management, we are delighted to have you here.

SENATOR GEORGE VOINOVICH: Thanks very much, Paul. I, first of all, am pleased to join with Congressman Morella and Senator Akaka and with Steny, and it was interesting to hear Steny's perspective on things.

Senator Akaka is probably the most conscientious member in the majority that we have in the United States Senate in terms of his concern for civil service reform. I recall when I was chairman of the Subcommittee on Governmental Affairs on management restructuring that Senator Akaka was at all of those hearings and he really cares about this issue and has spent a great deal of time with it. He's cosponsoring some of my stuff and I'm cosponsoring some of his.

And then Connie and I have been working for a couple of years on the same issue and it's very nice to know that we've got a few people over in the House that are really concerned about this issue.

I am pleased to have an opportunity to share my views with you and I join Senator Akaka and others in thanking you for your service, people who have been in government for many years and frankly have no reason to have any continuing interest but are here because you do care about your country and have experienced, I think have been victims of a system that hasn't been as good as it should be and understand that we need reform.

I've been at this in this business a long time, almost 40 years as a state rep, auditor, county commissioner, mayor, lieutenant governor, governor and now a member of the Senate, and I have seen firsthand the importance of focusing attention on resources, and we're talking about people. That's the greatest return I think for the taxpayers is the better the people that you have the better the government that you have.

It's interesting that despite the critical importance of people to the success of any organization, many in the federal government give short shrift to their employees and workforce planning.

I think the need for human capital reform in the federal government was illustrated pointedly by FEMA director Joe Allbaugh when testified before a Senate committee earlier this year, and I think Senator Akaka was there. In describing the workforce needs of his agency he said, and I'm going to read this because I think it's really typical of agencies right across the federal government.

He said, "We have not been spending enough time internally on our employees. Before 9/11 retention was a problem and there was essentially no recruitment. Over the next 18 months nearly 50 percent of our agency is eligible for retirement and since 9/11 retirements have accelerated. The people who worked at Ground Zero came to my office with a different perspective on life, wanting to spend more time with their kids, grandkids and spouses." I think that, as I say, this comment by Joe Allbaugh could be a comment that could be given by any one of the new agency directors that we have.

Today the federal government has a unique opportunity to develop and implement several successful initiatives for its workforce. For the past four years, long years, I've been working closely with my colleagues on the Senate Governmental Affairs Committee to elevate the prominence of strategic human capital management in the federal government.

Unfortunately, not enough of my colleagues are engaged in this issue, and I think Senator Akaka will testify to that. It's troubling, but I most appreciate the terrific cooperation that we've been getting from non-governmental groups. Thank God for them, including the Council on Excellence in Government, the National Academy of Public Administration, the Brookings Institution, Partnership for Public Service, the Private Sector Council, the Kennedy School at Harvard University and others.

And then within government OPM Director Kay Coles James and if you don't know Kay or haven't heard from her, she's really doing an outstanding job over there at OPM. I think that she is probably one of the most conscientious people we could ever want in that area.

David Walker has made human capital a great, great partner of ours in terms of moving forward in this regard. Sean O'Keefe did a good job over at OMB when he was there before he went to NASA and of course they brought Bob O'Neill over to the administration so that they would get up to speed on what they needed to do. And as you know, human capital is part of the president's initiative on management improvement.

And Mark Everson was before us yesterday and we finally have somebody over there in OMB that's got the title that deals with management.

That's the good news. Since 2000 we've had ten subcommittee hearings, ten, released a comprehensive report to the president. I gave that to him before he came into office or was sworn in. I call it the chickens are coming home to roost report. And convene a working group to solicit the views of a variety of stakeholders on human capital reform. Met with Daniels, Mitch Daniels and told him that if the administration did not prioritize this issue we're going to have some real problems. And I was right, 9/11, INS, FBI, SEC and other agencies, go on and on and on and you can look at them and the major problems that they've had is they haven't had the right personnel with the right skills in the right places and in many instances not enough of them and in too many instances not the right ones. Last fall I introduced legislation designed to address improvements that we can make on behalf of the workforce. Over the past few months I've partnered with the Bush administration, Senator Thompson, Cochran and Akaka to draft legislation that combines aspects of my bill with the human capital portions of the president's Managerial Flexibility Act.

And on the 20th of June we introduced the Federal Workforce Improvement Act of 2002. That legislation contains a variety of new authorities that will give federal managers the flexibility they need to attract and retain the best and brightest people.

I would commend our work to the commission as you draft a report later this year. Today, however, I'd like to take a few minutes to highlight some of the key sections of our bill, because so often we talk about this stuff and then we don't get into any specifics. I'd like you to know what are we talking about here with this legislation. As a former state exec I tend to see public policy as a logical process of defining problems, developing and executing a strategic plan with short-term and long-term solutions to those problems, then pausing periodically to measure the progress.

The main provisions of our bill are best viewed through that prism. Consider some of the federal government's human capital problems and the solutions we've proposed. First, strategic human capital is currently handled as a separate function. With no ties to federal agencies mission and program functions, it is often not incorporated at all in agency strategic plans. Our bill would mandate chief human capital officers at all federal agencies to raise the institutional profile of human capital and better integrate agencies' workforce management with agency mission. Any major corporation will tell you that the chief executive gets involved in the use of human capital. Get Jack Walsh. He'll tell you the number of hours that he's spent at GE going after people. We have got to elevate the issue of human capital in these federal agencies.

It would require the Office of Personnel and Management to design a set of systems, including metrics for assessing agency's human capital management and it would require agencies to include human capital strategic planning in their Government Performance and Results Acts report.

And that's another things, we have the GPRA, the reports out. They're not doing very good but we have not had one oversight hearing yet, not one on GPRA. So what does that say to the agencies? GPRA is just an exercise. Donna Shalala, if you go through the exercise, who cares, because there's no oversight, because we don't have time for oversight because we're doing too many other things.

Second, federal agencies do not share human capital best practices often enough, if at all. Legislation would codify the Human Resources Management Council as the chief human capital officers council, an interagency advisory and coordinating working group, so you get the best and brightest ideas, start sharing best practices.

Third, the federal hiring process is often cited as being too slow and cumbersome. It is. It unnecessarily limits the number of qualified candidates who may be offered positions and arbitrarily ranks candidates using an arcane system known as the Rule of Three, which dates from the Grant administration in the late 1860s. Our bill would improve hiring procedures by authorizing agencies to use category ranking systems, based on an applicant's skills and experience. This would increase the pool of potential candidates while retaining merit principles, including veterans preference.

This system, by the way, has worked at the Department of Agriculture for ten years. It was a demonstration project. It does work. And I won't go into the details but what it basically says, and I talked to some of these agencies, I'd have to get a list of three. I mean, this is somebody at the Veterans Administration. Then if I don't like them I send it back to the personnel office in Chicago or whatever it is and then they send me three more names back. I mean, it is unbelievable the way the system works.

Fourth, there's a severe workforce imbalance at many federal agencies due to the downsizing that occurred in the '90s. Just get rid of the people, get rid of the people, you know, all those bureaucrats, just get rid of them without worrying about whether you've got the skills and knowledge necessary to get the job done that you're supposed to do for the people.

The coming wave of retirements and recruitments has compounded this problem. Our legislation would authorize the use of voluntary separation incentive pays up to \$25,000 and voluntary early retirement in executive and judicial branch agencies for the purpose of workforce shaping.

I was able, after two years, to get a little change in the Defense Authorization Bill that allows the Defense Department to have 8,000 slots so they can reshape the civilian workforce in the Defense Department to get the people that they need to get the job done.

You would have thought that I was asking for everything, about \$90 million I think over ten years. And nobody lobbies for people. You've got everybody lobbying for F-22s and all those other things because you've got the manufacturers that want them and they're down and they've got very effective lobbies. You've got congressman and senators whose district it is, but nobody lobbies for people around here, nobody, so that federal agencies are not able to attract or retain top notch employees. Rules are inflexible regarding individual performance based bonuses and there are none in effect to attract the best and brightest.

Our proposal would offer agencies new flexibility in the use of relocation and retention bonuses, tools that can make a real difference in recruiting and retaining top candidates.

Sixth, the federal agencies do not invest in the professional development of their employees or engage in management succession planning to prepare for future staffing needs. This would require agencies to link training activities with performance plans, to appoint training officers to institute and oversee comprehensive management succession programs to develop future leaders and provide special training to managers to deal with poor performers. In addition, it would lift the current statutory restriction on payment for academic training.

And as Dan says, you've got to fund it. We have a lot of incentives. David Walker, when he was here, probably said, you know, we could do about 90 percent of it right now but we don't give them the money to get the job to take advantage of the incentives that currently are in the law.

Seventh, new federal employees hired at the mid-career level with several years of outside experience, accrue vacation time at the same rate as new employees hired directly out of college. In a nutshell, if you want to go out and recruit somebody who's been out in the private sector for 20 years you're going to give them less money than they could get in the private sector, they go home to their spouse and say we're going to take less money but it's for the government and we can make a difference and the spouse says, "Well what's your leave," and they say, "Well, we get two weeks the first year and then if we're there three years we get three weeks and if we're there for 15 years we'll get four weeks." And the spouse says, "Forget it." And it's a little, minor detail but it is a big deal in the way things are today, so that we take care of that.

Finally, federal agencies are not encouraged to experiment with new personnel systems. This rigidity has led several agencies, including the Securities and Exchange Commission, Internal Revenue Service and the Federal Aviation Administration, to seek and receive exemptions from Title V. Our bill would simplify and streamline the process for implementing management demonstration projects. It would lift the caps on the number of employees per project and the number of projects permitted at any given time. It would also extend the demonstration period from five to ten years.

Currently the IRS and FAA have exemptions from Title V. We want to give more agencies that flexibility. It's controversial with the unions but I would argue that conducting expanded demonstration projects under Title V is the way to keep Title V intact. Currently, agencies approach Congress in a piecemeal fashion. We've already talked about it. Everybody's got a different system and then they start recruiting people from other agencies.

The SEC, why do we have a problem? The other federal agencies that were regulatory raised their pay schedule and became competitive. The SEC didn't do it. Boom, they all flow to the other regulatory agencies and they lost one-third of their people. Then they got it. Then they increased their compensation and then Congress didn't fund them so they could get the people.

And Steny just said, with the new, what is it, the transportation agency, they're all flowing from other places. It is not the way to get the job done.

In addition to providing comprehensive legislation to address human capital we must pursue an aggressive outreach campaign to the American people, particularly young people. I'm not going to get into that because Steny did it, but we need to get out there and go after people. Just in a nutshell, why is the Kennedy school involved in this? Why has Joe Nye made human capital an executive session at the JFK school? He's concerned about one-third of his people going into government. Ten years ago it was 75 percent.

And thank God, I hope you're familiar with the Partnership for Public Service, Max Stires group, that they're really going out and contacting universities and trying to gin this thing up.

But I've got to tell you something, unless we change the system and make it more flexible, I'll just give you an example. We have a provision that says if you've got a 3.5 average, I mean I'm going to give you some practical stuff, that's wonderful. So I go out to the university and say you're 3.5, you've got a job. Well, here's how it works and maybe the former secretary knows. So then you take that person and you send them to Detroit, their application. Detroit looks it over. Then they send it somebody locally who then interviews the individual. After they interview the individual then they send it back to Detroit. Then Detroit sends it back and says you have a job. Get serious. If you look at the sheets, you've got 40 pages to go to work for the federal government. Most companies it's three or four sheets of paper. I mean, really we are in the dark ages today in what we're doing.

And I want to finish up on this. We have this legislation. I've worked on it. Dan's worked on it. We've got the unions out there. We've tried to work Colleen Kelley, we've tried to work with Bobby Harnage (ph) and so forth. The unions are worried because they're going to be giving up their rights. Where we are today is we've worked hard to put together a comprehensive piece of legislation that represents the best, okay, in America. It doesn't answer all of it, but it gets the job done.

So now we have homeland security, and the administration has come in with homeland security. They want a lot more power, don't they? That's where we're at, so they want more power.

My concern is that in the process of getting more power for the homeland security we're going to forget about all the other agencies and what they need. And my concern is that they won't get the power in the homeland security bill. I can guarantee the administration is not going to get it because people like Dan Akaka and some of the others are going to make sure they don't get it. And I think Connie too.

You're players, okay. David Walker said to me two years ago, he said, "George, you'll never get this legislation through in 2002." And I said, "Well, why not? It's an election year." So this may go over to next year, but I want to say to you that it really is something that we need a deal with. I think you are all familiar with the Hart-Rudman report. Jim Schlesinger came and testified a couple times before us and he basically said that a condition to solving and repairing everything that's wrong in the U.S. security edifice is a personnel problem.

And so what I'd love to see happen between now and then would be to try and work with the unions on a bipartisan basis, come up with an overall improvement, perhaps give up a little bit on some of the alternative demonstration projects, concentrate maybe on homeland security where they need the help and maybe some of the Defense Department. The Secretary of Defense is really very concerned about his human capital part. And work with the unions, Dan, to give them maybe a few more things so that they can tell their members they're not giving away the kitchen sink and maybe get the administration to come up with some money to provide a larger share of paying for the healthcare costs.

Because what you have to understand is this: The unions are afraid if they give this flexibility away that they're going to have fewer members and their members are going to be abused and the rest of it. They're also concerned that if we give them the flexibility that they're not going to get their comparability pay, they're not going to deal with the compression problem that you have; in the Senior Executive Service 75 percent of the people get the same amount of money, and the healthcare issue.

So my feeling is that if we could put something together, get the administration to come up with a little more money for healthcare, which will say to the unions look we're serious about this, and by the way, pay comparability has got to be dealt with, okay, and I'm hoping that this commission comes out with it. It's got to be dealt with. The compression problem has got to be dealt with. Somebody's going to have to come up with some more money in order to get this job done.

So I'm hoping that somehow we can work something out between now and the end of the year and make some progress here, and I apologize to you for going into so much detail with you but I wanted to bring you up to date from my perspective on where we are today because I think it will give you a better idea of where you are and perhaps what you can be doing.

I've made this a passion. I believe that changing the culture—I came to Congress, one of the reasons why I wanted to be a United States senator was to change the culture of the federal workforce. And I'm now the ranking member on my committee. Dan hopes that I continue to be ranking. I'm hoping that that changes. But regardless of whether I'm ranking or whether I'm in the majority I want you to know that this senator is going to stay with this as long as I'm in the United States Senate because it's going to take that kind of day in, day out commitment over years to really make a difference in this area.

Thank you.

PAUL VOLCKER: Well, that is terrific, Senator. It obviously takes that kind of leadership in the Congress and there hasn't been enough of it, despite the efforts of Congressman Hoyer, Steny Hoyer and Senator Akaka and others and that kind of commitment is clearly what is going to be needed. All we can do is provide a little I hope intellectual help. You're going to have a report around the end of the year. It's not going to help you in this session of Congress but I hope it helps you in the next session of Congress. And it's very easy, we'll provide a little report, you'll get it implemented; great division of labor. Mr. Duberstein will help you in explaining how to do that, but it really is terrific to have all of you here and hear that kind of expression of interest and continuing interest. But, Congresswoman Morella, you have had a certain interest over the years too.

REPRESENTATIVE CONNIE MORELLA: Indeed I have, Chairman Volcker. And Chairman Volcker and members of the National Commission on Public Service, and President Talbott, it's an honor to be here with you. And as I look around the table, Chairman Volcker, you couldn't have a better crew here to be steering this ship of state for federal employees, and I have worked with all of them in the past, Mr. Bowsher, and, of course, Connie Horner and my neighbor Bruce Laingen, who was involved in the first Volcker Commission, as I was, and Ken Duberstein, of course, Secretary Shalala, then whoever looks far better since they left Congress, and it is really a great group that you have here.

And you can see with my colleagues who are here with Senator Akaka and Congressman Hoyer and certainly the passionate Senator Voinovich the kind of enthusiasm and dedication that we hope to bring to what your objective is, and that is recruiting and retaining the very best and finest in public service.

And it was 12 years ago when you chaired the commission, which dealt with I'd still call it a quiet crisis. Well, it's no longer quiet and it is still a crisis of even more remarkable dimensions.

And you've heard the statistics, but every time I hear it stated I'm still amazed that more than half, 53 percent of the federal workforce will be eligible to retire in the next five years, and this would include 71 percent of the government's senior managers, those specialists and supervisors who ensure that government accomplishes its critical missions on behalf of the nation. These talented people provide a myriad of services, including protecting the air we breathe, the food that we eat, the water we drink and protect our shores against terrorism.

And I firmly believe, as my colleagues do, that it's our duty in Congress to ensure that we do have qualified people ready to take their place once they begin to retire while also retaining the people that we currently have to ensure that there's no significant decline in the quality of service that our federal government provides.

And so in order to achieve this, one of the issues that this commission and this Congress needs to address is how do we value federal personnel.

Simply put, before we discuss the proper methods for paying personnel, which will be an issue, within agencies, we need to recognize the importance of having personnel within agencies, and we have begun to do this. Senator Voinovich, Senator Akaka, myself, GAO, Partnership for Public Service, Director Kay Coles James, OPM have all stressed the need for human capital offices within each agency, and you've heard Senator Voinovich spell some of that out, and we have also stressed increasingly to emphasize training and recruiting along with greater flexibility for agency managers to structure their agency.

I would specifically recommend that the commission look at the language that Senator Voinovich and I have in our human capital bills, which they're slightly different, our human capital bills about human capital offices and about enhancing recruitment and retaining within agencies.

Recruitment and training is especially important. Only 29 percent of non-federal workers say they are well informed about federal government opportunities and only 21 percent of college graduates polled in a survey recall a federal recruiter ever visiting their campus. I find that to be the case in my great public school systems of Montgomery County, Maryland. Rarely, in fact, do they understand what the opportunities are, and I have been pushing, with some amount of success, that we have these partnerships with NIH and the public school system.

I was just at Carderock the other day where they had partnered with Winston Churchill and NIST is partnering with some others. We need to do more of that. We need to send those recruiters to these schools as well as to the colleges. And once we do attract employees almost no agencies had anything more than a cursory training system. This has to be changed if we want to retain employees.

I spoke before the Council on Excellence in Government the other day and one of the questions I had, one of the few questions I had, had to do with training. It had to do with training. It was a paucity of adequate training that's necessary.

And in the Human Capital bill, HR 4580, I have a section requiring agencies to link training and recruiting activities with performance plans and strategic goals. This section would also require agencies to maintain detailed records of their training and recruitment activities. I mean, given a sense of accountability for that, these agencies cannot adequately plan future activities if they have no reliable record of past actions. And by doing these things the federal government can better deliver service to the American people.

I also think the concept of sharing, as Senator Voinovich mentioned, is also helpful, if agencies can share with each other some of their best practices and what works in terms of training activities, even though they have fine tuned them to fit their desires and their mission.

But what the federal government cannot continue talking about and doing is arbitrarily cutting federal personnel or contracting out in the name of improving service or increasing efficiency. To cut first it is the size of the workforce or the number of agencies before, before connecting the cuts to the job to be done is to risk programs that work poorly and costs to go up.

In an article written by current Stanford Business School professor Jeffrey Zephyr (ph), it occurred in the June, 1998 edition of the "Harvard Business Review", he commented persuasively on the six dangers missed about pay. In the article he states that labor costs are not always a significant proportion of total costs and that, quote, "in reality low labor costs are a slippery way to compete and perhaps the least sustainable competitive advantage there is," unquote. An organization needs to factor in productivity. Simply cutting personnel or contracting out or not replacing those who retire will not necessarily save money if new workers are less productive than the old, and studies support this notion.

In 1994 the GAO studied nine contracting-out situations, finding that in each case tax dollars would have been saved if the work had been done by public servants. A 1998 Army study, the most comprehensive ever done, found it was paying 46 percent more for each private contractor employee than for each Army public servant.

And unfortunately the Bush administration advocates a contracting-out policy, emphasizing arbitrary quotas—that will be something that will be coming up today on the floor with the Treasury-Postal bill—arbitrary quotas that really don't take into account Mr. Zephyr's (ph) ideas or recent studies. This policy is completely counter to some other constructive administration ideas about human capital reform.

And that's the chief problem with the administration's outsourcing policy. As Zephyr (ph) emphasizes in his article, organizations must, quote, "make sure that pay practices are congruent with other management practices and reinforce rather than oppose their effects." And this is clearly not happening.

When the administration is publicly saying that by the end of 2004 it is their hope that 425,000 jobs will be reviewed for outsourcing, it's difficult for federal employees to then believe what the administration is saying about the need to recruit and retain workers.

Now, I raise these points not to say that government shouldn't downsize, but it's got to know what it's doing and have a clear policy. And to do otherwise gives a chilling effect to the federal employees.

I'll give you an example of why it's necessary. At the Social Security Administration between 1982 and 2001 the numbers of employees in regional and field offices, telephone service centers and program service centers fell by 28 percent. The number of managers and supervisors in those frontline offices was cut in half. More than 90 percent of almost 2,200 Social Security Administration field managers surveyed said that management and staff cuts have seriously harmed its ability to manage itself and deliver high quality services to citizens. At the same time, the agency's workload is skyrocketing. The errors occurring now, such as overpaying, are a direct result of the agency cutting layers of managers and supervisors without changing business processes and practices.

Some agencies should have their personnel cut, no doubt about it. The agency that is a lifeline to millions of seniors is not one of them. We can't talk about the importance of people if we obviously don't care who in our workforce is kept and who is let go. The government has to know what agencies need personnel. We're not saving money when we have not now functioning agencies.

So now then once we've established the importance of personnel, I do think this commission should look into pay reforms. As was made clear in OPM's April White Paper on Pay, the GS pay system is outdated. It was based on the federal workforce of the 1940s, the 1950s in which the majority of government jobs, close to 75 percent, were clerical in nature. Now less than 30 percent of the federal personnel are in jobs that are GS-7 or lower.

In addition, and as mentioned in the White Paper, over 75 percent of the increase in federal pay currently bears no relationship to individual achievement or competence, and in today's environment that's not acceptable. One idea has been discussed, and that is pay for performance or individual merit pay, and this idea is a valid one but I think again that Mr. Zephyr's (ph) article correctly noted that this idea is not a panacea. He states that most individual merit pay systems share two attributes: They absorb vast amounts of management time and they make everybody unhappy. For example, a study done of individual merit pay of 20 Social Security Administration offices found that merit pay had not effect on office performance. In certain agencies merit pay might work, but there needs to be other alternatives. Other agencies like the Social Security Administration may benefit from a pay sharing system.

The study referenced in the Zephyr (ph) article mentioned in an exhaust systems component company changed from an individual merit pay system to a group oriented compensation system and found in so doing that grievances decreased, product quality increased almost ten-fold and perceptions of teamwork and concern for performance all improved.

So I would say to you that I welcome the opportunity to work with you on developing a pay sharing system that would reward units as opposed to individuals, enhance teamwork, recognition, doing it within federal agencies for successful work.

Group oriented compensation systems are abundant in the private sector, and I think you'll probably find some relevant examples could be found as case studies for federal agencies. So given the nature of public service work it would seem to be a pretty good fit.

So you have quite a task ahead of you. I really do applaud you for being willing to serve. It's like I feel about federal government, it is a noble calling and it is very important that we do have the best and the brightest to have a functioning democracy. I've often said to have a functioning, flourishing democracy you need to have a constitutional rule of law, an independent judiciary, a free press and a good public service, and that's what you're all about.

I'm going to leave you now because I have a press conference at 11:00 and I'm going to be announcing two tele-work centers for our federal employees in Montgomery County. I had asked for it in the appropriations bill. They gave me the language saying GSA would look at the opportunity to do that. They have come out with their report and we will therefore have one in the northern part of the county and one in the southern part. So I think that's another one of the benefits you will be looking at is what we can do to enhance productivity, morale and traffic.

PAUL VOLCKER: We're delighted to have you here. Say a kind word about us when you have a press conference, that we're working away.

REPRESENTATIVE CONNIE MORELLA: I do all the time.

PAUL VOLCKER: What occurs to me in listening to all of you is that we haven't obviously got time for a lot of discussion this morning, it's not possible and we're going to have to come back after the congressional recess I presume and maybe talk a little more informally with you and some of your colleagues as we get to work in September and October and really putting on paper what we want to recommend, and at that stage I think we want to be back and talk with you and make sure we're not completely off the reservation in terms of what's possible and what makes sense. So we will be back in touch.

REPRESENTATIVE CONNIE MORELLA: We appreciate that very much.

MR.: Connie, you were indeed a big help in the first Volcker Commission and we thank you for that.

MR.: Senator Voinovich said that no one lobbies for people. Well, four of you are the leaders in the effort on behalf of the federal people to do that.

PAUL VOLCKER: There's no doubt about that.

REPRESENTATIVE CONNIE MORELLA: Thank you very much.

PAUL VOLCKER: Thank you.
Do we have anybody else this morning?
(Cross talk/off mike.)

PAUL VOLCKER: Okay, well we'll meet briefly and at the end of our meeting we'll hear him.