THE BROOKINGS INSTITUTION

URGENT BUSINESS FOR AMERICA: RELEASE OF THE REPORT AND RECOMMENDATIONS BY THE NATIONAL COMMISSION ON THE PUBLIC SERVICE

PAUL VOLCKER, CHAIRMAN
PAUL LIGHT, SENIOR ADVISER

COMMISSONERS PRESENT:
CHARLES BOWSHER, BRUCE LAINGEN, DONNA E. SHALALA, CONSTANCE HORNER, RICHARD RAVITCH, VIN WEBER

Washington, D.C.
Tuesday, January 7, 2003

Transcript by:
Federal News Service
Washington, D.C.

(Joined in progress.)

PAUL LIGHT: – recognize the word. I've looked it up and I now can spell it, and I do believe that's what we did. So, by way of starting this, we talked to Paul Volcker in July of 2001, several months before the events of September 11th, and had agreed on the opportunity that existed for a meaningful contribution to the debate about government organization and the coming talent problems in government, to have a second National Commission. The events of September 11th then occurred and we continued on this path. And I think as you look at the reports, you'll see that many of the recommendations are quite relevant to the conversation that has occurred since September 11th.

My job here, just briefly, is to thank the individuals who worked on the Commission: the staff at the Center for Public Service, who helped launch the Commission; the staff at the Volcker Commission, led by Hannah Sistare, that moved it forward; people like Cal Mackenzie, who wrote a brilliant first draft of the report, which our editor-in-chief worked tirelessly to edit and winnow and improve; and of course our funder, Douglas Dillon, who provided the dollars to get this Commission in motion and moving forward.

What we're going to do is have the Chairman talk a bit about the report, and then we'll take comments from each of the Commissioners here – brief comments – and then we'll open this for questions and answers, and try to get this in and out within about an hour.

Mr. Chairman.

PAUL VOLCKER: Well, thank you, Paul, and let me thank the other staff, Hannah and her associates, who have been working hard on this, and thank particularly my fellow Commissioners.

This is not a subject that ordinarily is associated with making the blood run hot – questions of civil service arrangements, government organization -- but we are here in a conviction, certainly at this end of the table, and I'm sure many of you, that this is an important subject that needs attention. We thought so before September 11th, and everything that's happened since then reinforces our concerns.

You, I'm sure, are familiar with the Commissioners that are here: Connie Horner, Chuck Bowsher, Dick Ravitch, Donna Shalala, Vin Weber, Bruce Laingen. That's half of the Commission—the other half of the Commission wasn't able to make it this morning—but it is representative, I think, of the breadth of the people that are interested in this subject. It spans different political ideologies, I think it's fair to say, but a uniform concern about the operation of government. And that concern, I think, has been felt; not only felt by many of us, and I'm sure many of you and many members of the public -- a kind of growing cynicism. We like that think that skepticism about

government is an American heritage running back to our founding fathers, and they were concerned about over-wielding power and checks and balances.

And I think skepticism is healthy, but a corrosive cynicism and lack of trust, which has been evident in growing ways in recent decades, I think, is a matter of real concern, and that's why we are here, to see how we can respond to that. And we have seen particular examples of difficulties in administration and coordination, in a very serious way, obviously, in the recent months on the terrorism side, which has given rise to a response for government. So, we think this is a very timely subject.

If I can give you a little background. When I first got inveigled, I had the feeling that some of the experts in government administration that have been involved in this and concerned about this have been building up concern over what, at one level, may be considered rather technical matters of public administration, and particularly of personnel administration where there are certainly difficulties in recruitment, retention, pay, supervision, and on and on. But when the Commission got together and began discussing it, we sympathized, certainly, with those problems, and wanted to listen to what the experts had to say, but we quickly became convinced that, if you were going to improve this area, you had some broader organizational problems of government to address as well. So as you will see, the report in the end starts out with some rather broad organizational approaches before it gets into some of the nuts and bolts of personnel practices and administrative practices in more detail.

The nub of the organizational proposals happened to coincide or overlap with the concerns that the Administration and the President had following September 11th, which gave rise to this proposal -- a rather grand reorganization proposal for the Homeland Security Department, bringing together a lot of agencies that they determined had collateral responsibilities for the area of internal security. That is the general philosophy which we suggest in a broader way is needed for reorganization of the federal government; bringing together a lot of disparate agencies that have grown up over a period of time in response to particular problems, reorganizing them in a way that the overlap is reduced, the chances of coordination are improved by creation of probably a smaller number of departments with responsibilities for a defined – broad but defined mission, bring them together under the supervision of those departments' operating agencies – operating agencies that in turn would be given a lot more administrative flexibility in carrying out what are essentially administerial duties.

The policies are directed by the political appointees, by the President, and by the Congress, as it should be, but when it comes to administering those policies, the administrators, the managers, should have the freedom and the capacity to deal with the administrative problems in a way that reduces measurable and desirable results. That, I think, is the general framework that motivated this report.

Specifically, we call for the Congress to provide the President with reorganization authority. There are precedents one way or another for this kind of thing, where the president, presumably in cooperation and collaboration with the Congress as well as with

outside experts, would develop a reorganization plan for particular units of the government. Particular departments would be able to present a coherent proposal for departments to the Congress; Congress would vote them up or down in a specified period of time, and move on. That is a process. It is not going to be, obviously, completed imminently. It is a framework for reorganization of the government over a period of time -- again, with the philosophy of a strong political direction at the center, but with ample administrative flexibility when it comes to the operational and administerial job of government.

It means, in particular, that for the operational agencies, they would be relieved of the General Schedule – the famous, or infamous, General Schedule of the Civil Service that has, I think, been deemed by virtually all the analysis we have seen, to be too rigid, too specific, too detailed to enable a government to operate efficiently and effectively in an area where it has so many highly technical and professional jobs to do, unlike the case 50 years ago when the last general reorganization of the government took place.

This is really – we're calling upon a reorganization of the government in a general sense for the first time since the Hoover Commission and the reorganization of the Defense Department immediately after World War II. So, we've had a lapse of 50 years before anybody – or since anybody has looked at this in a comprehensive way, and that is our broadest recommendation. This should be looked at in conjunction with the President and the Congress in way that will emerge with reorganizational authority for the President, which he can then exercise with the help of outside groups with the help and the cooperation of the Congress -- if it's going to pass the Congress -- so that he can present, in an orderly way, plans for reorganization that in some ways, as I say, are philosophically in tune with what was done in an ad hoc way for the Homeland Security Department.

In making this proposal, let me point out here, we respond in part to what's been happening in a very ad hoc kind of way. Individual agencies, feeling the constraints and difficulties of operating under existing and outmoded civil service rules, have, one after the other, been going to the Congress and asking for exemptions, and to some degree have obtained them, but it is kind of a messy process; it's not very well organized, not very uniform. The results have been a bit hit-and-miss, but it is representative, I think, of the pressures that exist that, really, we would like to think forced the reorganization more broadly of the kind that we are discussing.

So, that's the general framework. We have some more particular proposals, as you might expect. We were particularly struck in terms of the pay area, that, while there is no general evidence that government workers across the country in all kinds of jobs are underpaid, there is obviously a problem in particular areas, and the one that really jumps out at you is the judicial area, where the Chief Justice has repeatedly expressed his own concern; he came and talked to us about it. We were convinced that the case was very strong - federal judges now start at a salary of something like $150,000 a year. They have not received increases in recent years commensurate with the increase in the cost of living, as they were promised by legislation 10 years ago. When you've reached a point

where federal judges are getting very little more than, let's sayk a graduate out of Harvard Law School or Columbia Law School or Stanford Law School is making in his second year at a major law firm, you have something of a problem. My impression is that judges like what they're doing; they don't have to get paid exorbitant salaries, but $150,000 is a little low for the people that we expect to be the guardians, and are the guardians, of our judicial system. And that is a pressing point on the salary front.

The general compression in executive salaries has been a recurrent problem. That needs to be reexamined and dealt with, and we call upon Congress to deal with it. Whatever they want to do with their own salaries, they should not limit the salaries of the judges and the senior executives to their own salaries, if they don't want to increase their own salaries. And we have no problem with an increase in the congressional salaries, but that is up to them, and they should not constrain other salaries by their own decisions on their particular salaries.

We repeat what I think has been the experience of people across the political spectrum after they have been in government: that we would be better off with fewer political appointees, rather than more. The tendency over the years has been to add layers and layers of political appointees. The process of getting those people in office has been slower and slower. It goes through one administration after another, and I think we set the all-time record for delays on political appointees in the present administration, but the previous administration also set records, and the previous administration to that set records. There is something broken about that process, and there have been a lot of proposals for speeding that process, making it more cooperative, dealing with some of the ethical and conflict of interest rules that have delayed the process of dealing with some of the purely administrative burdens of filling out endless kinds of reports, all slightly different in terms of potential political appointees.

Many proposals were made in this area. We say it's time to act, and simplify and speed the process. And perhaps the greatest single contribution of that would be to reduce the number of appointments as well, and increase the effectiveness of government in the process. It puts a big burden, our proposals, on managers. We think the government needs the capacity to reach within the civil service system -- reach outside the civil service system for effective managers who will be given sufficient tenure to be able to do the kind of job that the government demands.

So that is our kind of broad philosophy that motivates the report. It's a rather short report. It is expressed in general terms. As I've talked to people in recent days about it they say, well, what's your blueprint? And I must confess, if you're looking for a detailed blueprint, you will not find it. We are setting out some general points. I like to think of it as a beautiful architectural rendering. The blueprint will have to be filled out by the engineers afterwards; that will be their job. Unlike the architectural renderings for Ground Zero in New York, we only have one, and we'd like to think that it is an appropriate one, and that is the issue that we put before you. And I know people here – you wouldn't be here unless you had an interest in this subject -- and we look to you to

keeping that flame alive and the interest alive, and see whether we can push this process forward.

So with that much said, I would like to get questions, but I would like to ask any of my fellow Commissioners here for what comment they'd like to make. We'll begin way down on the left wing – the right wing, I guess –

CONSTANCE HORNER: Definitely not the left wing. (Laughter.) That's a well-known fact.

MR. VOLCKER: -- from the other end, Connie Horner.

MS. HORNER: I first encountered Paul Volcker on this subject when testifying before his first National Commission on the Public Service, now almost 13 years ago. And I think it's an incredible testimony to Paul's good character that he has been willing to stick with this subject for this period of time. It's also a testimony to the extreme difficulty of making change in the arena of the national workplace, that he has had to stick with it over 12 or 13 years, and here we are again. I entirely agree with Paul that the time for deliberations over the fine points has passed, and it's definitely time to get on with it. And I think there is greater receptivity to getting on with it than I have seen in my time in Washington.

We saw the President get his Homeland Security Department enacted into law - a signal of how much good character is needed, but also how much enormous determination is needed in the massive battle over the Homeland Security Department, which embodies many of the reforms that we're proposing. It was a very difficult thing to do, requiring a great deal of expenditure of political capital. So, I think we shouldn't underestimate how hard it will be to get this done, even though we are in a better time to get it done than we have ever been.

I'd like to call attention just to one aspect of the report out of many, and that is the recommendations that will, I think, improve the leadership capacity in the federal workplace, both of political appointees and of senior civil servants.

Everyone who is responsible for a project, a program, a piece of work in the federal workplace is challenged to get the job done. They are rarely fully in charge of their work, and therefore, it is very difficult for them to sense that they should be held accountable, because they know they're not fully in charge. Rules and regulations are barriers to their getting the work done efficiently and effectively and accountably to the public. Our recommendations would address some of the more serious barriers to leaders in the federal workplace getting their work done, and I mean both civil servant leaders and political appointees as leaders.

In the case of political appointees, our recommendations would try to overcome the barriers of extensive run-up to getting in the job. We need just to get people in their jobs faster, so they can get on with them, and so that they arrive in those jobs not already

drained and jaundiced by the effort of getting there, both the effort of irrational form-filling for public disclosure of aspects of their lives, but also the fear of controversy before they even embark upon their jobs. So both of these things need to be addressed, and can be.

In the case of senior executives, senior civil servants, our recommendations attempt to address the need to relieve the unnaturally low pay for very senior civil servants, set by the political constraint of Congress tying its own politically sensitive pay to the pay of the senior civil servants.

We also try to relieve the question – the long-standing question- of what a senior executive is in the federal workplace. A senior executive in the federal workplace is supposed to have a broad span of executive responsibility; but often, because you can't pay a non-executive who is a professional or a technical specialist a lot of money, enough money to keep him or her in the job doing valuable work, people have been promoted into executive roles who don't want to be there, because those roles pay better. They don't want to be there, but that's the only way they can get more pay. We've proposed to break those two groups into separate categories, both able to receive a reasonable level of pay -- the executive management corps and the professional and technical corps.

And finally, in the case of middle managers, middle managers are operating in a 50-year-old personnel system designed for government clerks. We now have a government of knowledge workers the way the private sector does, and we need to, as our Recommendation #11's first sentence is, "Abolish the General Schedule." This 50-year-old system is utterly dysfunctional for current life in the federal workplace. Middle managers need to be able to hire people, fire people, promote people, pay people properly, assign them the work that needs to be done on the basis of their capacity, their performance, how valuable they are in competing workplaces, both private sector and state level and non-profit sector, in order to get people into jobs and get them done efficiently to the taxpayer and effectively to the recipient of government services and programs.

MR. VOLCKER: Chuck?

CHARLES BOWSHER: Okay. Well, I think all of you know that I served as controller general and head of the GAO for 15 years, which is a term of office over there, and I was very fortunate when I went over there that my predecessor, Elmer Staats, had got legislation to give more flexibility in the way we managed and led the GAO. And so we were able to modernize, really, the processes, and to change our personnel system to a banding system, and things like that, and we literally were able to double the production of our number of reports. And when Elmer became the controller general, they were testifying about 15 times a year; when I left over there we were testifying between 250 and 300 times a year and issuing about 1,500 reports a year. And we could never have done it if we had not had the flexibility to run the agency more like a professional services organization, which basically is what the GAO is. And the one thing I never was able to do, though, was to pay my top people, the senior civil servants, because 90

percent of those hearings – although I testified one year more than any Cabinet officer, which the Washington Post pointed out – 90 percent of those hearings were handled by my senior civil servants, and I would have loved to have paid those people more.

When the banking crisis and the S and L crisis came along, we were able to get that kind of flexibility for the RTC and for the FDIC, and everything like that, and it really made a difference. We could attract the kind of talent in lawyers, accountants and experienced people that we needed to get the job done, and we got the job done. If you compare what we did then in the early '90s to where Japan is today, why, you see the difference and what it meant to the country. I think the SEC right now is a disaster, and one of the reasons is, you know, they've got lawyers and accountants that they can't pay a decent salary. They've had a terrific turnover over there in the last five to 10 years.

And so, I think what we're recommending here, which Paul has highlighted and Connie has amplified, is a lot more flexibility, and how do you run these individual agencies and departments to get the job done? That's what we're really trying to get across.

MR. VOLCKER: Yeah, I think just to drive that point home, we haven't got any estimates here on budgetary costs or savings, and we're not arguing for bigger government or smaller government; we're arguing for better government in whatever is determined to be done. And I think all of us are convinced that if we do it right, and we have the kind of administrative authority that Chuck is talking about, and with proper oversight, you're going to get more effective government cheaper, or more economically – let's not say cheaper – more economically. That will be the bottom line, or one of the bottom lines, of success.

Dick?

RICHARD RAVITCH: I'd just like to emphasize two of the subjects addressed in this report which I think are particularly relevant. One is the appropriate concern about ethics in government that has dominated political thinking for the last 25 years, that has resulted in a system that, in our judgment, creates massive disincentives for people to go into public service. The amount of public disclosure required – and I think the report points out that something like 99 percent of the disclosure reports prepared by public employees never get seen by the public. We think it's time to review those requirements, to understand that it's a healthy thing to enable people to move back and forth between the private and public sector, and that there shouldn't be a presumption of conflict when none exists. So that whole subject has to be reviewed.

Second of all, as our private economy has gotten more and more complicated, the regulatory function and the economic stimulus function that the government performs inevitably requires a set of skills that have to, in some ways, match the skills that are available in the private sector; otherwise, they're not going to be able to perform their public functions very easily. And that may require the kind of differential in compensation, depending on whether the function is primarily an administerial or

governmental function, as distinct from a function in which you're interacting -- where a government agency is interacting with the private economy.

I chaired a commission created by the Congress on housing – submitted a report to the Congress last summer – and I think the most important recommendation we made was to suggest that the FHA be created as a separate organization, not outside the purview of the federal budget. But, if it were to perform the task that it has historically performed, it had to acquire the talent that it couldn't acquire when salaries were so limited. So the credit enhancement that's so critical to our economy – because housing counts for about a third of the GNP – performed by agencies very, very ably, or by government corporations that have no governmental – really significant governmental accountability and responsibility.

And if you look at the diversity of responsibilities that exist for various parts of the economy throughout government agencies, it argues that the skill sets, for example, in dealing with credit enhancements, whether they are for small business or for housing or Defense Department housing, as the case may be, perhaps ought to be handled by a group of people who have the skill set that enables them to function and intersect with the private economy in a sensible way.

MR. VOLCKER: Donna?

DONNA SHALALA: Well, I sat on the First National Commission on the Public Service, and I thoroughly enjoyed another tour of duty with Paul Volcker. Let me make three points.

The first one is, of course, that we have to replace this generation of public servants, civil servants, because they're retiring, and young people are discouraged in the application process. I, of course, work with young people; many of them would very much like to come into the federal government, but they don't get the kind of quick answers that they get from the private sector when they apply for positions. And quickening the process is important, but also, once they get there, retention and their ability to see career paths become important. Someone needs to pay attention to them once they get into government. The Presidential Management Intern concept was a brilliant idea, but too many of them get discouraged and leave government once they're in that program for three or four years. So we need to worry about recruitment and about replacement, but also about retention, and I would refer you to Recommendations 11, 12 and 13 in particular.

Second, on judicial pay, I'd like to add just one thing to what Paul said. It's not just the private sector – we've always known the private sector pays more, and that all of these judges could make more by going to the private sector, but guess what? – so do the major law schools. And any of our Supreme Court Justices could make three times their salary – two or three times their salaries in the major law schools in this country. And the fact that the nonprofit sector is paying significantly more for people of this level of talent is important for us to remember, and we need to move on judicial salaries.

And third, I want to also emphasize the point about too many political appointees. As someone who has had a tour in government, and who had the authority and the responsibility for a number of political appointees, what we're effectively doing now is moving the senior civil service into middle level jobs. By putting in layers of political appointments, we're pushing them down. And more importantly, as we add those layers, we put in more and more people who don't know what they're doing, who don't have the qualifications to lead major agencies. And I think we're at a critical point and we need to address this as part of our overall recommendations. That's why I think this report is very significant.

MR. VOLCKER: Vin.

VIN WEBER: Everybody is talking about how they – or at least many of the Commissioners have talked about how they first worked with Chairman Volcker on the Volcker Commission 13 years ago. My first experience with the Chairman was when I was a brand-new member of Congress and he was the Chairman of the Federal Reserve Board and in charge -- or in the process of -- saving the American economy from what certainly appeared to be the greatest threat to the economy in my lifetime. I'm struck by the fact that you were able to do that far more quickly than you've been able to revitalize the federal workforce.

MR. VOLCKER: (Chuckles.)

MR. WEBER: While everybody else at the podium, or the dais, has had experience running agencies and dealing with these problems, my background has really been a part of the problem, because the Congress has really been the place where the reforms that we've talked about here, and that have been talked about for some time, have been stalled in that move, and we're very sensitive to that.

Part of the reason that happens is that meaningful – and the Chairman talked about this – is that these reforms often get caught up in very different issues, ideological debates over the proper size and the role of government. And the breadth of partisan and ideological diversity of this Commission should be something that the Congress should look at very seriously, and understand that, while those arguments about the size and the function of government are appropriate ideological – and once they've been resolved we should all agree that we want the most effectively structured government to implement those policies. This panel is diverse, and I understand that, and it's my hope that, the Congress will listen to some of the people that we have listened to from both parties, Senator Voinovich in my party being a good example, who understand the vital need to restructure the government and have it functioning as effectively as it possibly can.

I also want to point out that the Congress is a problem because of its nature. It's a constituency-driven entity by its very structure and nature, and we recognize that, and Recommendation #3, which is how we get to implementing this, is particularly vital. The Congress, from time to time, does recognize that the constituency-responsive nature of

that body makes it difficult to achieve certain reforms, and they set up expedited processes for doing it on issues as diverse as base closing and trade authority.

We understand that, in order to achieve the kind of restructuring we're talking about, the President needs to be given, at least for a limited period of time, expedited authority to make recommendations to Congress, which can be voted up or down. And that, of course, would be followed by the necessary restructuring of the committee of Congress which responds to the structure of the federal government. That's not easy, but there are members of Congress who understand that that's really the only way that this can happen. And I think in terms of implementing and making some things that we're recommending happen, it's vital.

Let me lastly say a brief word on the issue of congressional pay, because that issue came up quite often in my years there. There is a myth in Congress, I'd say. The myth is that if you tie your salaries to judicial salaries, it will result in higher congressional salaries, or political cover for those who vote for increases in congressional pay. Putting aside for a moment the question of whether or not that's a good motivation, it just doesn't work. If you talk to any member of Congress privately about it, they'll tell you that when they go back and have to defend a vote on congressional pay in their districts, they don't get very far telling people, "I really didn't want any more money, but I had to vote for it for the judges." I mean, some things just don't pass the lab test in a congressional district. That one doesn't. Most members of Congress know it, and so you don't end up even getting what members of Congress would like to get from this, which is an increase, maybe, in their own salary levels or political protection from those votes. All you get is downward pressure on judicial salaries as well.

So I hope the Congress will, after many years of living with this myth, look at our recommendations and understand that there is nothing to be gained for them, even in the narrowest sense of it, by continuing to have that linkage in congressional pay.

MR. VOLCKER: Bruce Laingen is a veteran of earlier wars, or efforts, in this area. Your hair is getting grayer, Bruce.

BRUCE LAINGEN: Thanks a lot for that compliment. (Laughter.) I'm an *ex-officio*, and as I keep telling Paul Volcker, that means I don't do the work, like Armacost and Strobe Talbot were *ex-officio* and therefore only partially responsible.

I want to emphasize one word, and that's implementation. No one knows that better than Paul Volcker himself, and Paul Light, sitting over there, that however good the report is and however strong and effective the recommendations look, nothing is going to happen unless an implementation process gets started and has some support where it matters.

And I invite you particularly to look at page 32 of this report, that describes some interim steps that can be taken – or should be taken toward implementation, not least of course the recommendation about giving the President expedited authority, that

recommends structural reorganization items, and also item two – and I think my colleagues have referred to this confirmation process and the need to expedite that and clarify it. And I speak from the experience of working with the American Academy of Diplomacy, where I serve now, how difficult it is sometimes to get our ambassadors in place overseas, and the importance therefore of this particular recommendation, made earlier as well in the first Volcker Commission report, to speed and streamline that appointment process – very difficult.

And as this page also emphasizes, that the important thing in implementation is support from all of your who are here today, and the many organizations that you represent. Without your cooperation and without your push and pressure from the ranks, nothing much is going to happen again.

MR. VOLCKER: We're going to make something happen, so we welcome your questions. I will retreat to the platform here. We welcome your questions.

Yes, sir.

Q: When you talk about eliminating some of the flexibility, does that (off mike) job security and can't get maybe better pay?

MR. VOLCKER: Well, I think the way I would envisage this is that that might take place progressively over time. As individual agencies are included in some reorganization plan, they will be given flexibility away from the General Schedule. That the General Schedule might remain, hopefully modified with so-called broad banding and so forth, is kind of a default approach. If you haven't been reorganized you're still going to be under the old system. But we hope that progression – reorganization will be effective for a large part of government, and that the General Schedule itself can be improved.

You know, we have a – in earlier discussions I think the trick here is providing the flexibility, providing the managerial flexibility and the managerial attention, which you now don't have for reasons that are explicable, but maintain the kind of disciplined oversight that will be necessary to make sure the flexibility isn't abused, and that is going to be a nice management and political problem which I think is soluble, but it's going to take a lot of attention and careful design.

I say the deficiencies of management are explicable now in part. It's something that we haven't said explicitly, but the people in charge now, the political appointees aren't in office very long, and they do not perceive that their primary mission is the effective management of their departments. They're not going to be there long enough to benefit from effective management; they have other policy issues on their mind and they don't have the cadre of seasoned, effective managerial people to carry through the reforms. So it just gets neglected and doesn't get done, and that's what we're trying to address.

Yes, ma'am.

Q: (Off mike.) Who might you have had in mind to do such a plan, what players?

MR. VOLCKER: What?

Q: What players do you have in mind?

MR. VOLCKER: Well, I think some of the players in the executive branch that need to be central to this process are certainly the OMB and the managerial side of OMB, which may need to be strengthened itself, but certainly in terms of the oversight, the Office of Personnel Management would have a key role. The question has been raised with me by a number of experts, where that particular agency is strong enough and effective enough in terms of its historic role, to carry this out. My answer to that would be, well, it better be. If it's not, we better change it and improve it or revise it, or whatever.

But I think the oversight is going to take place within the administration with those key agencies. We suggest that they may want to call upon a group of outside experts, outside groups, NAPA, the Council of Excellence in Government, the Kennedy School, RAND, all of whom have cooperated with us in this project, and others, for kind of permanent liaison, or at least transitional liaison in this process, or private executives that have had experience. Something like this had been going on with the post office right now, and that could be generalized because I think this is a process that has to be worked out very carefully, in cooperation with the Congress, in the last analysis.

Q: I was just wondering who in Congress is going to take up the cause for you?

MR. VOLCKER: Well, I'll let some of the people that know more about the Congress than I -- but there are, obviously, committees in the Congress that are directly responsible for civil service and organizational reform, and they are the ones who we will look to. And a new chairman of – what's the committee – its exact title, Hannah?

HANNAH SISTARE: Governmental Affairs.

MR. VOLCKER: What?

MS. SISTARE: Governmental Affairs.

MR. VOLCKER: Governmental Affairs, Susan Collins. Fred Thompson, who is a strong supporter, I believe, of what we've been trying to do, we are losing because he's retiring from the Congress, but Susan Collins will become the chairman of that committee. The leadership of the House committee has not yet been decided, but certainly the leadership of the equivalent House committee is where we will be looking.

So those two committees are the key, but we are perfectly happy to get any volunteers elsewhere in the Congress to help in this process.

One of the Commissioners mentioned – I guess it was Connie – that there is more interest and support in the Congress than there certainly was 13 or 14 years ago, for maybe obvious reasons. That does not mean there's a lot. This does not mean that it's on the top of the agenda of a lot of congressmen, but we want to raise that visibility, raise that interest, and that is why the kind of thing that Bruce just said is so important.

Q: Are you going to meet with any senior members of the executive branch, including the president or other high officials, to discuss your findings? And who would you hope to meet with? Mr. Laingen pointed out that this was --

MR. VOLCKER: Right. We have met with the OMB people and the Office of Personnel Management. They ought to characterize, I guess, their response themselves. I found it very encouraging in those two key areas, because they would be key areas. Obviously we hope the president will take an interest, and so we look forward to that too. Philosophically it is very much, in my judgment, and I think in the judgment of all of us, in tune with that they sensed in terms of a need for the Homeland Security Department.

MR. LAINGEN: I should add, a friend of the first Volcker Commission, the president then, Bush 41, did meet with Paul and members of the commission. And I would reiterate what Paul has just said; I hope and I think he should – Bush 43 should meet with members of the commission.

MS. HORNER: And I would add also to that another person and office important to this process is the Office of Presidential Personnel, with respect to improving the presidential appointment process and the life of presidential appointees. Clay Johnson, the president's assistant for Personnel, has a very strong management background and a very good, strong interest in management improvement in the federal workplace. So I think he would also be an important player in this.

MR. VOLCKER: I think it's fair to say the Office of Management and Budget has a particular interest in this, and we have looked to them for kind of leadership within the administration, but we sure hope that that will be broadened.

Yeah, in the back.

Q: (Off mike.)

MR. VOLCKER: Well I don't – other Commissioners can comment; I'm not sufficiently aware of the details. I know that was a difficult and controversial process, and all I wanted to indicate was I don't think we have examined that closely and can say that is the perfect model, the perfect template for reorganization. Philosophically, I think it is directed at precisely the kind of problem we're talking about, and getting disparate agencies together in a way that offers more prospect for cooperation. And given a lot

more flexibility at that level, it is certainly philosophically and practically consistent with what we're talking about. But I know there is a lot of controversy about particularly the labor management relations and whether there is too much flexibility or – I guess there is no controversy about whether there's enough oversight in all the rest.

My own feeling is that those issues ought to be debated in the Congress with the president for general application. That ought to be – best judgment ought to be incorporated in the enabling legislation for what would then become fast-track reorganization authority.

I don't know whether anyone else wants to comment on that.

MS. HORNER: I would just say that if you want to see these reforms already somewhat in place so that you can evaluate what the outcome might look like, you could look at the FAA, the IRS, the General Accounting Office especially, the National Institute of Technology Standards. There are some places that because their missions have been deemed by Congress to be extremely important or politically sensitive have been let out of the General Schedule. They've been given permission to have some freedom in these regards. You can look at them; they have been very successful by and large. The Navy experiments in China Lake, California, all of these are models somewhat akin. They're mixed, but they're models somewhat akin to some of our thinking.

MR. WEBER: I would make one point. The chairman and others have talked about some of the elements of this – of the Department of Homeland Security Act as being models – and maybe not – but there's another way of looking at it, which is that it's a catalyst for the kind of reform we're talking about. The implementation of the formation of the Department of Homeland Security is going to take a considerable amount of time -- it's not over with the signing ceremony or anything like that -- and it's going to impact broadly throughout the federal government. So the government is in a process of at least partial reform right now, and one of our views is, quite aside from whether or not everything within the Department of Homeland Security is going to be done the right way or the wrong way, and we might all argue about that.

It is a moment of reform, and we're hoping that the Congress and the executive branch will look at that and say, let's logically look at the whole government while we're going through what appears to be a bipartisan effort toward reform of at least part of the government.

MR. VOLCKER: Absolutely. From my standpoint this is a bit of serendipity that just as we were concerned about all these problems, the president, quite independently, came along and said, look, these terrorist acts are just making it clear that we need the kind of reorganization in this area that we're talking about more generally. And what we're saying is he's absolutely correct in this area in concept, but it shouldn't be limited just to that particular area.

MS. SHALALA: Nor are we suggesting that you can install major issues of coherence with just structural reforms. Sometimes it takes – the legislation itself is flawed or too complex for any structure to fix. So I would be – without commenting specifically on Homeland Security, I would say that structural reforms can't fix everything, but certainly the flexibility on personnel systems can make government more attractive and allow us to retain. And I would argue real security in civil service is in our retention strategies; our ability to keep people not only happy but productive in government. And the current system doesn't get us there, and, as Connie has pointed out, we've done enough experimentation. We actually know that we ought to put some of these things in place at a very wide scale.

MR. VOLCKER: The research that we've had available to us indicated there's a lot of unhappiness about the structure and performance of government among civil servants themselves, and a lot of frustration in various departments about their inability to do the kind of job that they think they're capable of doing because of some of these arcane and outmoded restrictions. So we're not talking about, I think, imposing on the civil service something that in concept many, many civil servants are not prepared for and would really welcome.

Q: Do you foresee any strong, continuing commitment to the merit principle -- ?

MR. VOLCKER: Well, I think my answer to that would be yes. Certainly, in motivating our thought, it's efficiency and effectiveness, not politics. And promotion should be by merit; demotion ought to be by lack of merit, and that both ought to work effectively, and neither is working effectively at the moment.

Q: -- new constraints on the discretionary budget. Do you see room for the general pay increases under your recommendations?

MR. VOLCKER: Well, I don't think we recommend a general pay increase across the government. I mean, that obviously is something that gets considered and –

Q: Judicial? Executive?

MR. VOLCKER: We are certainly recommending pay increases where – in the judicial area it's a matter of urgency, attention – and urgent attention to the compression at the top. This will have some budgetary consequences, but maybe we need fewer of those people over time. And our basic feeling is, as I guess both Chuck Bowsher and Dick Ravitch have emphasized, to get some efficiency and effectiveness in government we've got to do these things to save money over time. The appearance of a short-term budgetary cost may be an illusion in terms of looking at the ultimate objective: to do things more effectively.

MR. BOWSHER: I would say, Paul, one of the things we're coming out with here is trying to get away from this top-heavy political appointee structure at the very top, which is also costly, and really maybe pay some of the senior civil servants a little more,

which goes along with what we were saying about the federal judges. And when you think about the numbers there, it's not large. In other words, the budgetary effect to straighten out the top of the government would not be a very big cost.

Q: I still don't know if I hear a political motivation to do this. I mean, Homeland Security, with some of the other agencies, there was a specific motivation to do this. What's the crisis here?

MS. SHALALA: Part of the crisis is that we're about to change the civil service, and we certainly, on the recruitment and retention issue, we need to fill these positions with high-quality people, which is sort of the fundamentals. And part of it is reflected, I think, in the emergency sense that people have that we better do some of this reorganization and give the executives some flexibility now so that we can get these agencies and these government roles in line with what they – what we want them to accomplish.

MR. VOLCKER: Now, the irony here in that respect is how many months or years ago did Hart-Rudman look at the internal security problem and comment about the lack of coordination in the problems within different agencies responsible for this? Where's the political urgency? It got no attention. Well, it got some attention when a couple of planes flew into the World Trade Center and into the Pentagon, but we don't want the moral equivalent of planes running into the World Trade Center and the Pentagon before we make some changes, and that's the plea we have in areas that may be hopefully a little less spectacular than that. But the need seems pretty evident to almost everybody who has looked at.

I just think the breadth – we have a small commission but it's very broad and very experienced people, all of which share this view. And I'm going to turn your question around. Look at the rest of you. You know, if you can't find reasons to be interested in this subject and bring it to the attention of the Congress and the politicians, we will have failed.

MS. SHALALA: It's a fundamental issue of safety. Unless we are able to compete and to upgrade government science, for example, whether it's the FDA or the CDC, unless they are able to attract first-rate people and structurally be responsive to the new science, our safety is at risk.

MR. VOLCKER: Yeah, look at the examples we have: CDC. Suddenly we got an anthrax threat. Where is the CDC? We've got the experts there; can they identify all these spores, or whatever? Well, where have they been? Those people don't come cheap, and they don't come, you know, all of a sudden. You've got to have an existing framework. Where has the SEC been -- a great respected agency? We all love the independence of the SEC; we've bragged about it all over the world. And we suddenly find out, you know, it was not funded adequately, it doesn't have the adequate expertise, wasn't able to keep up with the enormous complexities and growth in financial markets, and you find out because you've got a big crisis.

Well, what more spur do you need than those two examples? And there are others for action. You know, we can sit back and wait for the next crisis, but we'd like to forestall some of them.

MR. BOWSHER: You can add the IRS a few years ago.

MR. VOLCKER: The IRS is –

MR. BOWSHER: And although we had a really excellent person in charge there, Charles Rossotti, for five years, he was struggling there without the resources and the capability, and yet we're looking at, as he often said, $200 billion of uncollected taxes that probably should have been collected each year.

Q: (Off mike). I was wondering what role the federal employee union is playing in –

MR. VOLCKER: The federal union? Excuse me. Well, we have talked to them; they have talked to us. I talked to them as recently as yesterday. And going over the report I think in concept they have welcomed some of this. They are naturally cautious and questioning: are we sure we've got a role here for unions? They believe in unions, they believe in opportunities for collective bargaining. We make some general comments here that this is an important area, looking toward cooperation, and we point to successful areas of cooperation in the past that could be models for the legislation that we're pulling for.

Q: When you look at this chart on page 5, "Adjusting to a Changing Federal Workforce – (off mike) – GF-11 and above – (off mike) – maybe fairly easy to understand the economics of that, but has anyone on the commission considered the psychological, the sociological – other factors involved in the –

MR. VOLCKER: Have we considered psychological and sociological factors, Hannah? (Chuckles.)

MR. : I think we can just say yes and move on to the next question. (Laughter.)

MR. VOLCKER: This chart does reflect, in a way, in stark terms, our concerns that the government has become professionalized. It had to become professionalized, in concept anyway, because of the complexities of its task compared to 50 years ago. And it's still operating under the old civil service rules of 50 years ago, which were aimed at a workforce that was concentrated in GS-2, GS-3, GS-4, GS-5. Now it's concentrated in 11, 12, 13, 14, and that's a very different workforce and requires a different personnel system.

MS. HORNER: One of the things it requires is that the workforce we need in the future is going to be a highly educated workforce that assumes responsibility for the completion of the total product, not just a little procedural piece of it – what's called in the contemporary personnel jargon "knowledge workers." And in order to get high-caliber knowledge workers into the government, we have to create an environment of autonomy, independent thinking, independent decision-making, responsibility for the outcome of a task the public has assigned.

In order to get people like that, we have to create a work environment where people have much greater freedom of decision-making than has been historically the case, and this introduces a lot of political challenges and complexities, requires a lot of care and thinking by the Congress and a lot of new thinking by the Congress because it's been very easy for the Congress and the leadership of the executive branch simply to go along and get along and then go along a little more. We can't get the kind of people we need if we do that now.

MS. SHALALA: This new workforce has a lot more options in terms of their own careers, in terms of coming in and out of governments in the previous workforce. And that demands that we have a different system in place.

MR. BOWSHER: I think also you've got to recognize that this chart would be the same if you looked at a private sector organization. In other words, if you looked at a big bank back in those years, you'd see hundreds of thousands of clerks doing clerical work. That's what we had in the federal government too.

Q: You've got corporations moving into foreign nations. Our government can't do that. I mean, cheap workers --

MR. BOWSHER: Oh, yeah, but one of the things you've done is you've done it through technology too; in other words, right here in this country. In other words, basically what's happened is you've figured out how to eliminate much of the paperwork that we all were engulfed with years and years ago.

MR. VOLCKER: The two interesting charts – maybe we only have two charts in this report – is the one that you mentioned, which shows the increasing specialization and professionalism of government, then you turn the page and you've got a chart on the trust in government. We've got a more complicated government doing more complicated jobs, and meanwhile the public trust goes from over 60 percent back in the Kennedy days – it would have been higher than that, I think, in the immediate post World War II period -- down to 30 percent or so in recent years. A little blip there, or a big blip in the middle of "morning in America" with President Reagan, but then it dropped down again.

It's a pretty serious matter when trusting government – I think the question is, do you have trust that the government all the time, or most of the time, will do right? The answer to that question is 30 percent of the people say yes. That's not a very happy result.

Q: Do you have any findings in regard to(off mike)?

MR. VOLCKER: Well, I don't know that we are very specific in that area. We are saying, of course, under the reorganization approach that managers in that area were going to have a lot more flexibility at setting pay in terms of employment. We don't make specific recommendations as to just how much, because you can't. I think our feeling was we shouldn't make recommendations that are specific because we're calling for flexibility, with appropriate oversight.

Q: On the question of pay for federal judges, the report says law school deans, not law school faculty --

MS. SHALALA: Professors.

Q: Well, deans, that's 300,000; professors, about 210,000 --

MR. VOLCKER: Plus outside consulting.

Q: So is that a level that --

(Confusion of voices.)

MR. VOLCKER: Justice Breyer presented to us a lot of statistics on this matter, and I think his conclusion, which I think we were sympathetic with, was you don't even have to try to match their total income, considering they're working nine months a year – at least they may be working more than nine months a year, but they're getting paid for nine months a year at a $200,000 or so level for a professor, not the deans, and they have other opportunities for employment.

You've got to get more or less commensurate at least with their base salary. You don't have to make them wealthy but you have to –

MS. : Just make it self-competitive.

MR. VOLCKER: Yeah, we shouldn't be suffering from the federal judiciary for people that don't want to remain there, or can't remain there because they can't meet the, as they see, legitimate family responsibilities. I thought in the earlier commission – and my rough rule of thumb is that a federal judge or a senior federal executive ought to be able to send at least one child to college without having to borrow the money and having some prospect of repaying it. That's not the case now.

Q: So would 200,000 -- would that be sort of -- ?

MR. VOLCKER: Well, we didn't -- I think if they had simply – I don't remember the exact figure, but if the Congress had simply followed through what they said 10 years

ago, I don't know that it would be $200,000 for a district judge, but it would be getting up towards that area. They have lost roughly, if I recall correctly, 40 percent in real take-home pay in the last 10 or 12 years, which is -- I think what they really feel is that they weren't even able to – they had a big salary revision in, what, '91, '92, someplace in there. Since then, Congress has just not followed through on its commitment to keep those salaries reasonably in line with the cost of living. So, you know, that's the starting point, I think, for change.

MS. SHALALA: You end up hiring people that are either very young or very old, because in their middle years when they're sending their kids to college, they just can't do it.

Q: (Off mike.)

MR. RAVITCH: There are studies that show that compensation in the nonprofit sector has grown significantly in recent years, and that more and more institutions recognize that to get the talent that they need to perform their function, their compensation has to be competitive with the private sector.

So, yes, I think the learning curve of the nonprofit organizations is exactly what we're connecting to intellectually in the recommendations here. It's the same fundamental concept.

MS. HORNER: I would also speculate that clarity of mission and commitment to mission have a lot to do with the nonprofit sector's sense of satisfaction. And the reorganizations that our report recommends would also strengthen, I think, federal employees' sense of clarity of mission because there would be more coherence, and the simpler mission statement to adhere to.

MR. VOLCKER: We promised to get you out of here in an hour. The hour – the witching hour has come. If there is an urgent question left out there, well, we'll try to take it, but it would probably be the last one. If there is no urgent question, thank you all for coming.

(Applause and end of event.)