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REFORMING INSTITUTIONS

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## PROCEEDINGS

MS. BINDER: Thank you very much for coming to our next session. I'm Sarah Binder, a senior fellow here in Governance Studies.

Our second panel here is to look more broadly at the politics of reform and government performance more generally. I have her on my far right William Galston, the Ezra K. Zilkha chair in Governance Studies and a senior fellow at Brookings Institution. His interest in scholarship and expertise are wide-ranging across issues of American public philosophy and reform of political institutions.

To my right is Donald Kettl, dean at the School of Public Policy at the University of Maryland, and a nonresident senior fellow here at Brookings. He's a student of public policy and public management as well as the manager of public organizations, and the author of, most recently, *The Next Government of the United States: Why Our Institutions Fail Us and How to Fix them.*

And they'll each take about 10 minutes or longer if they'd like, and then I'll ask a few questions and open it up for your participation.

Bill?

MR. GALSTON: Well, Jeff Zients mentioned in his opening comments that the president had challenged him and his team to, "think bigger. Well, I'm going to try see him and raise him one. I'm not a practitioner in this area, but I would like to put some broader thoughts

on the table to stir the pot and stimulate conversation. My basic proposition is that we really need to think institutionally if we want to make a lot of progress on government performance. We need to think about institutional structures and institutional rules, and the incentives that structures and rules create for individual and collective behavior. As a partially defrocked political philosopher, I don't want to deny the importance of internalized norms, but it seems to me that the place to start is with rearrangement of the incentives because we know that people respond very strongly to inventivies [sic]. So that's my first point.

Here's my second point. We need to be precise about what we're looking for when we talk about government performance as refracted through the institutions that we create, and it seems to me that we are looking for four things above all, each one of which creates some very real difficulties for the discussion in which we're engaged today.

First of all, we're looking for effectiveness. To state the obvious, effectiveness implies a really reasonably clear definition of what the goals are and what counts as success. And that is a criterion that is more easily met in some cases than in others. In the case of the military, in the case of crisis management, FEMA, or in the case of an organization like the Social Security Administration which has a very clearly-defined task for which it is principally if not solely responsible within the U.S. government. For a lot of other institutions in the public sector, it is considerably harder to answer the question: What counts as success?

The second thing we're looking for is efficiency, achieving whatever the organization is supposed to achieve with the best ratio of outputs in the numerator to inputs in the denominator. And that, too, poses some very interesting questions for public organizations.

Jeff referred this morning to what he called the productivity gap between the private sector and the public sector. Well, there's been a certain amount of economic theorizing about that.

Some of you may have heard of Baumol's disease, you know, which is a fancy way of saying that the government tends to inherit a lot of the functions that are more resistant to productivity enhancements than is the case in the private sector. Continuing our focus on efficiency, if you look at efficiency gains in the past two centuries, they have come principally through technological substitution: substitution of technology for human labor. If you look at our agricultural sector which now employs about between two and three percent of our workforce, if you look at our manufacturing sector which employed 35 percent 50 years ago and it is now at about 11 percent, or if you look at our military which is a fraction of the size of what it was in the Vietnam era, in each case what you've seen is productivity enhancements through the substitution of technology for human labor.

There are some obvious obstacles to technological substitution in government. I don't mean to downplay it as a strategy, but there are some limits. First of all, technology cannot substitute for nonroutine tasks and for human judgment. It's not particularly good when the problem is a problem that cuts across agency and institutional lines.

And third, to state the obvious, productivity through technological substitution means a constant reduction in the human workforce. Need I mention in this company the kind of resistance that that tends to engender?

The other component of efficiency, I think subordinate to technological substitution, is the organization and reorganization of human resources. That requires above all

flexible work rules. A nice though not unobjectionable riff on that appeared in last Friday's *Wall Street Journal*. You may have seen Steve Goldsmith's piece urging, stating in a title that *Progressive Governance Is Obsolete*, subhead, *The Rule-Based Civil Service Was A Step Forward From Tammany Hall*, but stifle government workers at a time when getting value for tax dollars is more important than ever.

There is an issue that that puts on the table that we need to discuss, and we don't need to go all the way down the Wisconsin road to put that issue on the table.

The third thing we're looking for is innovation, and what does innovation require in organizations? A lot of flexibility, which means frontline autonomy. It requires constant learning the way Japanese auto manufacturers surged ahead in the 1970s and the 1980s, and the way that U.S. military constantly learns from after-action reviews which are institutionalized. And third, innovation requires risk-taking, which implies a tolerance for failure.

There's an old saying that a loan officer who never makes a bad loan is a bad loan officer. And much the same is true in the area of innovation. If you have a low tolerance for innovation, a low tolerance for failure, then innovation is almost entirely ruled out. Well, public institutions do have a low tolerance for failure. Why?

That brings me to the fourth feature of public institutions, namely accountability. Anything from anybody who knows anything about the Congressional accountability process knows two things: First of all that it is hopelessly fragmented. I think you all know that the one recommendation of the 9/11 Commission that has been conspicuously flouted is the

recommendation that Congress reorganize the oversight process. It means that somebody has to give up some turf; nobody's willing to do it, and it, for the most part it hasn't happened.

But, finally -- but, second and even more pertinently for these purposes, the oversight process is imbedded in a political "gotcha" culture, which means that the single conspicuous instance of failure outweighs 99 instances of success. The "gotcha" culture is the mortal enemy of innovation, period, full stop.

If you're talking about accountability to the people as opposed to elected officials, then many of the things that were talked about earlier this morning are quite pertinent: improved participation and transparency. And you can use technology for transparency very effectively, and to some extent you can use technology to enhance public participation. So the real problem is with the accountability to elected officials.

Third and final point, thinking institutionally, what should we be looking for, and here are some categories of things to think about: First of all, institutional invention. Many great strides forward in governance have come through institutional invention. 1974 we created the Congressional Budget Office. Imagine where we'd be if we hadn't. Well, some of you may be saying how could we be in a worse place, but at least we know where we are.

The second thing we might be looking at is what I will call mission-based reorganization. The classic example here is food safety. We've moved halfway down the road. For the life of me, I cannot figure out why there is not a single organization in the U.S. government that has full responsibility for all aspects of food safety. I know the answer to that question, but it can't be justified in terms of any of the four criteria that I just laid down. The

answer is as to why we don't is a purely political answer and has nothing to do with institutional performance or effectiveness.

Third thing we ought to be looking at is reforms, the kinds of reforms that actually change incentives within organizations.

The fourth thing we ought to be looking at in my judgment is reallocation of responsibilities among different levels of the federal system. Alice Rivlin has done terrific writing on that through the decades. It (inaudible) that it happens, but that doesn't mean it's not a good idea, and, in fact, I think you could make a very easy case that government performance is hindered by the fact that we have different layers of the government doing things for which they are not best suited even though they may have been well suited to do those jobs 30, 40, 50, or 60 years ago when the current structures were established.

And finally, I think we ought to look in a broader way about new possibilities for effective collaboration between the public and private sectors, and I've even come with a show-and-tell. A new book came out just last week, I think, that I want to bring to your attention. It's by Jack Donahue and Richard Zeckhauser of the Kennedy School, and it's called *Your Collaborative Governance: Private Roles For Public Goals in Turbulent Times*, and it is chock-a-block full not only of theory of win/win opportunities in that kind of collaboration but also case studies that exemplify vividly when it succeeds and when it fails.

Final thought. I think government would do better if it focused on the things that only it can do, and the provision of optable [sic] amounts of public goods is very high on that list of things that only government can do, and that means that there ought to be a relentless focus

for performance on things like information, infrastructure, basic research, education, and not the least, clear transparent rules honestly enforced. If government asked itself more rigorously what is it that government can do that nobody else can, I think we'd have a better government.

Thank you.

MS. BINDER: Excellent. Thank you, Bill.

Don, do you want to take a turn?

MR. KETTL: Thanks much. I want I think to build on some of the great points that Bill had made and begin with at least an observation on what I want to call the performance paradox. There is a whole long list of things of which this is one where we seem to be spending an enormous amount of time talking without, in the minds of at least many people observers, making much progress about this.

If you look back over the last 20 years, we've had a long series of major efforts on performance. We've had the Reinvent-a-Government movement in the Obama administration; we have the performance assessment review tools that the Bush administration rolled out, a new performance effort now with the Obama administration. We have Congress passing not once but twice the Government Performance Results Act, yet we have people sitting around with hand-wringing saying: Why are we not making more progress? There's this kind of performance paradox where now one can't be a serious president of the United States without something major on performance, but on the other hand you also can't have a major performance effort without people convening in gatherings like this wondering why we don't do better.

And I want to make two points: One is that's inevitable because it has to do with some of the toughest problems that government deals with, but it's also maybe a little bit too cynical because I think, in fact, we've done considerably better, but trying to understand what we've done well and what we haven't gets down to some of the really basic questions of governments that we have to try to tackle before we can think about what it is we're actually trying to do or how we know whether or not it makes it work.

The basic problem I think hinges on a couple of notions the first of which is that when we start talking about performance, we tend to misunderstand it as a basic problem of measurement. We want to try to create measurement systems to try to identify goals and to try to measure results against those goals. And, of course, that's very important because we need to understand whether or not anything's working.

One of the questions about food safety, for example, we're trying to understand the basic desirable structure for food safety is that we need to understand what it is that's not working well -- and contaminated lettuce is not very high on anybody's list of must-do's -- so we got to find some way to try to solve that problem. So the key is try to figure out, given a problem, how can we solve it? And so that's the core performance to be able to get at that we need to be able to measure it. But performance is misunderstood when it's understood as a problem of measurement.

Performance is fundamentally a problem of communication, and that communication is fundamentally an issue of governance. It only matters in the degree to which it helps us try to talk about what it is we want government to do and how well government does

it. And so often we get just caught down in the weeds about who's setting the strategic goals and whether or not the performance measure are valid, and the way in which it's being rolled out and whether or not anybody's listening.

The fundamental problem that people from time to time talk about is we have all this requirements for performance measurement, but Congress doesn't seem to be paying attention, and why is that? Well, they're paying more attention than people think, but the fundamental problem has to do not with the quality of the performance measures but the nature of the conversation that happens about them.

And so unless and until we can find a way to harness a performance system to a system of governance communication that is talking about what we're doing and how well we're doing it, and how we could do it better, we're not likely to do a whole lot better. And we'll keep lots of people engaged talking about lots of things for a very long time. But performance measurement has to be understood not fundamentally as a question of measurement but as an issue of political communication.

The next piece that falls off of that is, what's the communication about? What is it that we're trying to talk about? And here the problem gets more complex because when we start talking about communication, we're talking about communication on the inside game about efficiency, about what it is that government does and how government can do it better.

What is it that we do well, for example in air traffic control, and whether or not if we had alternative onboard systems on airplanes which we're moving toward, we can allow pilots to do some of their own air traffic control so that we reduce the burdens on air traffic

controllers and improve safety and get more planes more safely to more airports, especially in bad weather. And that's an efficiency point that has to do performance which is a terrific example.

One of the reasons why we're increasingly relying on private sector companies that come into FEMA is that in the aftermath of Hurricane Katrina it turned out that Wal-Mart was able to figure out how to get the supply chain moving again when FEMA couldn't. And so now FEMA's trying to figure out how to learn those lessons.

So the fundamental question about figuring out we use performance to drive the inside game of government is something that's tremendously important. But a problem often comes about when we try to use the inside game efficiency questions to try to simultaneously answer the really big high-scale issues that have to do with fundamental problems of governance.

Citizens, not surprisingly, want to know whether or not their government's working, and when government doesn't seem to work, they want to understand why, and when things don't seem to work, member of Congress want to investigate. They've understood that there are a lot more cameras that show up when they can poke into problems of what happened to BP than they try to figure out what we can do to the margin to try to improve the efficiency of a government program by 10 percent. So they are driven by the incentives that, in fact, attract them to what it is that they do.

The media, then, are driving by the same kinds of issues, and so we often end up discovering that we have performance systems that are designed to try to get overall measures

of fundamental government performance and public discourse that focuses on: Can you believe the government screwed up on that? Why is it that we are having a hard time getting safe spinach to the supermarkets? Why is it that tomatoes are being pulled off the shelves? What in the world are they thinking over at the Transportation Security Administration with people patting you down, up and down? What's going on?

The fundamental political discourse out there tends to be disconnected from the performance systems that we've created to try to improve government efficiency, and so we've got this problem where we have a government performance system that's set up to try to work the inside game to improve government efficiency and, in fact, I think has accomplished some significant things, and we try to use the same system to try to drive the broader-level questions of governance, and we're wondering why it is that the conversation is enjoined, and it's because Fox, CNN, *New York Times*, *The Washington Post* tend to revolve around different stories than the inside baseball kinds of games that drive efficiency questions.

So one of the reasons why we could keep having these conferences over and over and over again is that we have this disconnect between the kind of frontline performance pieces that are inside baseball, and then the games that everybody watches on TV that turn to be different kinds of pieces. They're connected, but we don't connect them well. We don't connect them well because too often we focus on this fundamental first problem of looking at performance is about measurement instead of about communication.

That's going to sound cynical, but I'm fundamentally an optimist about this because I think first we have made some progress, and I think there are some things on the

table now that suggest we're likely to make more. First, budgets are really tight, and we don't need to stun anybody with that observation, but the tighter budgets get, the higher the pressure there is going to be. We're trying to figure out how we're going to squeeze more productivity out of government, and that's the fundamental case that Jeff is trying to bring to us is he starts thinking about what it is that government performance is all about.

The second thing -- and this is the importance of the book that Bill showed -- more and more of the problems that we have, have to do with problems that pay no attention whatsoever to organizational boundaries. And so a large part of government's most important issues have to do with dealing with those collaborative problems. Or, put differently, the biggest gains we're likely to make in improving government's productivity are not likely to come from improving blocking and tackling inside agencies but improving connections among agencies.

One of the things that I've done from time to time is ask which -- can you think of an important problem that matters that any one government agency can control? And there's almost nothing that I can imagine that really matters that is within the jurisdiction of a single agency. On the other hand, the food safety issues are a prime example of things that cross jurisdictional boundaries. The questions of airline security have to do with issues that cross boundaries. Health reform has to do with problems that cross boundaries and levels of government and sectors of society. Almost everything we're trying to do crosses boundaries, and the great opportunity that performance has is trying to figure out, what are we trying to do here? How well are we doing it? What could we do to have things work better?

I'm reminded of a case not too long ago when I was driving home, and you've seen all the stories on TV about the risk of driving SUVs and the fact that they may roll over at high-speed collisions. You try to oversteer too fast and the SUV rolls over. Well, I missed just one of those accidents and, in fact, came upon it when the wheels were still spinning. Fortunately, it was low-speed collision, and the people inside seemed to be okay -- that was the good news.

The bad news is that they were hanging upside down by their seatbelts, and I also realized looking around, and I'm a student of public management so I tend to see the world that way. And I realized they were exactly at the boundary line between two adjoining communities and then realized that three things could happen and two of them were bad. One was that both communities would assume that it was the other's responsibility to respond and nothing would happen.

The second would be that both communities would see it was their responsibility to respond and both of them would with the full complement of emergency services, and the people would get out, but taxpayers would pay far too much.

The third thing that could happen is that they would have decided in advance that who was going to respond, with which kinds of equipment. And, fortunately, it was the third thing that happened. I got on 911, talked to the county emergency response, the dispatch -- the local government responders from two different jurisdictions who responded in a collaborative kind of way, and that was a case where productivity happened based on performance and with collaboration among adjoining jurisdictions because they figured out how to solve the problem.

The moral of the story is, when you're hanging upside down by your seatbelts, you don't care what the deco says on the side of the vehicle that comes to get you out. But the reality is that that is where the biggest potential gains in governance for performance lie, in trying to find ways of getting those problems to be solved across those boundaries.

That leads to another observation which is that we tend to think about our government, to run our government, and to organize our government in terms of structure. And if both of what I've just said is true that we have tight budgets, and that the biggest gains in productivity will happen in cross-boundary collaboration, focusing solely on moving the boxes around or working on the inside baseball/inside agency performance management pieces toward efficiency are going to miss the biggest gains of collaboration, which means we probably need to focus most on place, that we need to figure out how government works for us in our neighborhoods on our street.

We don't really care, and, frankly, most citizens don't care -- most cases they don't even know -- what the Department of Commerce, the Department of Labor, Department of Housing and Urban Development does. They don't know, they shouldn't have to. It's just that if they have a problem, they ought to expect it to be solved, and what performance, if it's managed correctly, this next generation of pieces will do is to allow us to think about how to organize government so it's effective by place so that we can find a way of organizing our structures to make that happen. To think about performance by agencies, about programs within their boundaries is to miss everything that's important about 21st century government.

If we think, ultimately, about what it is that we want, we want government to work, and we want government to be efficient. We want government's organization, its structure, its performance, and its finances to produce high-quality services for the lowest possible cost. Or, put differently, if a hurricane strikes and you're stuck on top of a roof, there's only one correct answer to that question which is to find a way to get you off, and you don't really care who does it, you don't really care about the agency or public or private sector that's responsible for doing it; you just want to be -- have some way for people to be able to get you off.

That's the fundamental challenge of governance in the performance system in the 21st century, to try to move away from understanding performance as a measurement system to understanding that it is a communication system; to try to understand that tight budgets demand higher performance, that higher performance means working across boundaries; working across boundaries means redefining government away from function and programs in terms of place and how government programs affect citizens where they live, and driving up performance systems as information systems and the inside baseball sense to make that happen better. And if we're really lucky -- and this is in the land of Pollyanna -- to try to construct this performance system in a way that allows us as citizens to better engage what it is that government's doing for us.

Now that's a tall order but it means a fundamental redefinition of performance so that it better matches the way that governance itself actually works.

MS. BINDER: Excellent. Thank you both. There's more than enough to chew on here, and let me just say I think you've redefined the notion of the Good Samaritan: Not only

did you call 9/11 but you perfectly diagnosed the public management problems of getting the guys out from their seatbelts. So I hope you are passing by the next time I'm hanging upside down.

Maybe we could start here by trying to get a sense of how do you move from the problems we diagnosed to the better outcomes that we think are necessary. And maybe since our focus is a little more on the politics of reform, maybe we could say a little bit, both of you, about what role do you see here for Congress in terms of moving toward better performance systems, how much of this can be done by the administration without new Congressional authority, and how do you get Congress itself to rethink performance in the ways that move away from, you know, part systems and measurement systems, and so forth?

MR. GALSTON: Well, interestingly, your question points to what I think may be a disagreement between Don and me about the nature of the problem. And I venture into this discussion with some trepidation because Don has spent his life these questions, and I am, let me state it frankly, a ringer and a poacher. But thank you for having me on the podium anyway.

To the extent that the issue is collaboration through communication, which is I think Don's emphasis, then the role of -- the role of Congress, it seems to me although not zero, is not the essence. To the extent that the focus has to be on structure, then a lot of legislative action is going to be necessary, and, of course, my emphasis was more on -- was more on structure. And since Don has given some very vivid street-level examples, let me give one.

As the unhappy denizens of this region now, we were, you know, in the past couple of years we've been swatted with some pretty big snow storms in the winter. And if you

live in Bethesda, Maryland, as I do, you know, at the periphery of Montgomery County, you find out something very interesting, namely, that the responsibility for plowing the roads is divided between the county government on the one hand and the state government on the other. And you learn with interest, and then with increasing dismay, that Wisconsin Avenue is, in fact, State Road 355, which means that the county is not responsible for plowing it.

You probably also know that in the, you know, in the practice of snow-plowing, the knee bone is connected to the thigh bone; that is, there is a right order to do these things and a wrong order to do these things. And you could make it work if there is terrific communication between the state agency responsible for it and the county agency responsible for it.

But let me just make an obvious point. Communication falls under the heading of transaction costs. Transaction costs are just that, they are a cost. And any time you have to deal across boundaries you are increasing transaction costs. And not only that, you're complicating them because different agencies have different missions and different emphases, and so the state has one set of priorities, the county has a second set of priorities. They may not mesh very well. It's more than a question of communication; it's also a question of negotiation, more transaction costs.

I would submit to you that that is the problem that could be more effectively addressed by changing the basic structure of responsibility for plowing the street so that it is not divided between the state and the county but is place-based where you have the county responsible for plowing all the roads within its jurisdiction and get some sort of cash transfer

from the state to subsidize that piece of it. That's the way it ought to work, but that would require a legislative change in the state of Maryland.

And, more broadly, you know, more broadly let's take food safety at the federal government. We've had sort of halfway legislation that barely passed the Congress last year. Why is it a bad idea to have food safety responsibilities embedded in USDA? I'll tell you: USDA's mission is a safe, abundant, and affordable food supply. That's their -- that's their triadic mantra.

Well, abundance and affordability pull in one direction and safety pulls in a different direction. All right, the more seriously you say that you take safety, the more costs you're going to pile on the agricultural system. And to the extent that the agricultural system, the producers, whether small or large are asked to bear some of that cost, they will resist that, and that resistance can be transmitted very effectively to the food safety inspectors within USDA. That is why, that is a structural reason why, you need to get all that stuff out of an agency that won't put safety first and put it into an agency that does put safety first so that you can have the kind of shoot-out between the producers and the safety providers that the system requires, and that's where the system has to make a judgment.

But you never get to make that judgment if you don't have a clean single focus on food safety somewhere. And that's why the Social Security system works and the food safety system has worked very imperfectly. So that's my plea to think structurally as opposed to collaboratively, which is not to say that I have anything against collaboration, but I will say this:

My experience with interagency processes when I was in the federal government convinced me that the transaction costs were phenomenally high to get anything done.

MR. KETTL: Let me be in almost totally violent agreement --

MR. GALSTON: Okay.

MR. KETTL: -- with one exception. And that, and the problem is with both the premise and the conclusion, because I agree with almost everything in between. (Laughter) The problem is that --

MR. GALSTON: You can tell that we're both academics. (Laughter)

MR. KETTL: The problem is this: --

MR. GALSTON: Yeah?

MR. KETTL: That if there was only one thing that you wanted an agency to do and you could focus squarely on the pursuit of a single mission, then organizing a structure that focused squarely on that mission makes a huge amount of sense. But the difficult, for example, in the snow-plowing case is that while we could have all things having to do with streets put in the hands of the county as opposing to sharing -- and there are all kinds of really interesting historical reasons why we have split divisions -- it's the case that most of the people who do most of the snow-plowing also spend a good chunk of their time also patching streets, building new roads, dealing with things that have traditionally been more locally focused, and then when it snows, they hop in their trucks, they pull up plows in the front, put salt spreaders in the back and end up going through and dealing with that.

It's the case of New York where the snow plows are also garbage trucks. The problem is that if you had only a single -- if you had snow to shovel and plow every day, then you could have a single department of snow plowing; but when you mix the functions and you have people plowing snow but two days later out there being in charge of filling in the pot holes that the snow creates, then as you mixed the functions then you begin to create tremendous difficulties in coordination.

And the problem of creating a single agency focus that is in charge of both runs the risk of multiplying inefficiencies because you may end up building capacity for snow plowing that then gets in the way of the rest of the work that gets to be done most of the rest of the time first. And, second -- don't even get me started on the kind of political issues that come up with people who want to have their own say over which pot holes get filled -- because most people would not want to have to go to the county for a debate over the relative priority setting on snow plowing and pot hole filling simultaneously.

So this is not to make an argument in favor of inefficiency, but it's to make it argument instead that the kind of single agency focus on functions sometimes creates unexpected inefficiencies in other related areas that the same agencies are responsible for, but one of the things that's really interesting is that in response to the problems of snow plow, if you now go on the county website, you can find out which streets have been plowed in real time, which has two things: One is if you're trying to figure out, well, the road in front of my house looks fine, come out right around the corner, bam, right into a snow drift because you haven't had that plowed.

You could check before going out on the information system to determine whether or not it's safe to leave which then maximizes the amount of traffic and people getting into trouble. But, secondly, it creates political incentives for people to engage in the kind of collaboration that's required among different jurisdictions because you look and say, well, that road's being plowed and that one's not.

Citizens shouldn't have to try to figure out whether it's the county or the local road that's being plowed in the process; they just need to know whether or not they can get from point A to point B. And these information systems are creating incentives for both managing the process and also for tracking the success and engaging citizens in the conversation back and forth.

But -- and that's part of the reason why the coordination of food safety in a single agency is so problematic because, as you point out, the agencies also have other functions. So if we get to the point of deciding that we only care about a single function, like Social Security, the great advantage to Social Security is that it pretty much does just one thing. But the instant you start multiplying goals, then you start building in conflicts, and when you start building in conflicts about missions, you get into very difficult problems about structure. And given the fact that most of what we do most of the time involves these kind of tradeoffs among functions, it gets to be very hard to organize them all in one structure.

This is somebody; I've spent 40 years in public administration whose fundamental premise is that structure is the fundamental building block. But I've gotten to the point where I'm haven't quite abandoned hope, but I'm getting increasingly worried about solving

problems that are fundamentally nonstructural by trying to move the structures around. And this, I'm worrying, is the morass in which the administration's restructuring effort may be about to go.

MS. BINDER: Okay. So we have a bit of a draw maybe on institutions. There's I think the case needs to be made for your communication approach. And now maybe you could say a little bit more about if there's institutional issues but there's also incentives.

All right, where do -- where does communication come in with changing bureaucratic incentives to actually get to the outcome-based view of performance that you want us to think about?

MR. KETTL: A quick -- quick notion on this: One is that -- and it's a partial answer to your previous question as well -- the fact is that on most of these things Congress doesn't care because most of these questions have to do with operational issues at a level so far below what is the Congress spends most of its time on, that Congress doesn't care a whole lot, which means that agency managers have enormous latitude to do all kinds of things because Congress is just not going to pay much attention, or to which they pay attention doesn't really sink up with the kinds of things that attract Congressional incentives.

So that it really means that agency managers can do a lot. And then the question is: what is it that they can do to do their job better? And again call me Pollyannish, but my sense is that most government managers go to work most days trying to figure out how to do their job better. And most of them spend most of the time in meetings because they've

increasingly come to realize that to get their job done they need to talk with other people in other agencies, and that kind of coordination is increasingly important.

If you ask yourself what is it that in the end caused those people in the rolled over SUV to get rescued, it had to do with the construction of interagency coordination driven by information systems. So if you take two premises, one is that no matter what -- does structure matter? Absolutely. Some structures are better than others. Is our food safety structure screwed up? Absolutely. Can we do better? You better believe it.

But two premises: One is that no matter what structure that you create, it's not going to be fully satisfactory.

MR. GALSTON: Right.

MR. KETTL: And the second is when you have unsatisfactory structures that leave you short, what is it that you do? The answer is you have a meeting, what draws, drives the meeting, information about what it is you're trying to accomplish. And one of the things that's happening and increasingly is the ability to be able to bring government to ground by focusing on results by place instead of managing solely in terms of function or agency is, I think, how we can try to create that important bridge between the different structures that no matter what we do we're going to be left unresolved because in the end there's no structure that's going to pull through fully satisfactory. And if we spend all of our time organizing, we're going to miss that premise, I think.

MS. BINDER: Bill? Or --

MR. GALSTON: I think we may have beaten this one into the ground.

MS. BINDER: Okay. I still think we could say a little bit more about this fragmentation problem, whether it's diversity of the policy views that are fragmented across institutions or bureaucratic authority that's fragmented. Are there benefits to fragmentation? All right, is there some value to having a system that fragments authority what -- we clearly see the down sides -- but is there some reason to preserve those types of fragmentation?

MR. KETTL: Well, there's good fragmentation and bad fragmentation. Bad fragmentation in my judgment is the sort of situation that a recent GAO report highlighted where you have lots of different programs and different little bureaus in different departments doing very much the same thing or similar things. I think it is very hard to construct a persuasive argument in favor of that kind of status quo.

You can give an historical account of how that came to be, and that account usually focuses around, let us say, a particularly passionate senator or representative who is on a particular committee or subcommittee of jurisdiction was able to get a program in a particular place because of that institutional location. That's not an argument in favor; that's bad fragmentation in my judgment.

Good fragmentation is where you have important arguments and interests with a clear institutional representation such that that voice is going to be heard in the deliberation.

I -- I mean one of my most memorable experiences run, when I was in the White House on the Domestic Policy Council, was as the manager of the interagency processes. Because you could tell, at least I learned although I didn't know anything about this when I walked into the building in January of 1993, I learned that where you stood on the question at

hand depended a lot on where you sat. But it was very, very important to have, when we were thinking about the reform of pesticide laws, everybody at the table from the Council of Economic Advisors all the way over to USDA with EPA as a kind of a flywheel in between, that was good fragmentation because it made it inevitable that all of the relevant arguments would be heard.

It also made it inevitable that they would all be heard incessantly and interminably. And so it was -- it was my job to bring the discussion to an end, which took me 18 months. The transaction costs in that particular negotiation were phenomenally high whether you measured them in time or stress. And I will not repeat war stories about angry calls that I got from the deputy secretary of XYZ in the course of that process. It was very unpleasant, but I think necessary and in the end productive. And in the end it led to the first serious reform of pesticide laws in many decades.

And so I saw the logic of that good fragmentation after the fact. It was less evident in the moment, I will confess. (Laughter)

MR. GALSTON: We tend to move to fragmentation arguments in terms of we just want to try to wipe it all out. It would probably be a bad idea to have three or four different people trying to control planes landing at National Airport; having one voice trying to talk to the pilot about which runway to use is probably better. On the other hand, if you tried to figure out what's going on in Libya right now, having multiple voices probably makes sense.

MR. KETTL: Um-hmm.

MR. GALSTON: It's the question of where it is that redundancy provides extra vision and extra voice in a way that would be useful.

MS. BINDER: Why don't we open up for any questions, reactions. There is a roving microphone.

MR. KETTL: We've stunned everybody into silence.

MS. BINDER: There's one in the --

SPEAKER: Yes, hi. You had mentioned some concern about getting bogged down in reorganization versus maybe fundamentally thinking about what are we trying to accomplish, and are we accomplishing it in the most effective way. Can you speak about, you know, there are existing interagency structures in the trade area that are present, can interagency coordinating structure be a substitute for structural alignment? Or at what point do you sort of reach a tipping point where you need to fundamentally move the boxes around?

MR. GALSTON: A quick example -- again, I'm an academic -- and one of the things that's happened sometimes at some universities is that when new buildings are constructed, the question is where to put in the walkways between them. And there are two basic strategies: One is that the engineers get out and decide that they're going to lay concrete or asphalt from here to there.

A second strategy that's often used with some success is not to do anything for six to nine months and wait and see where the students go. And once they figure out where the pathways are, then those pathways are paved over.

And one of the questions, one of the answers to the question of interagency taskforces and when to regularize them is to see what it is that agencies find useful in their

conversations to get the jobs done, and then once those are established and once we prove them, then to try to regularize them.

To try to force people to do things that are otherwise unnatural and to try to do it by structure is the way in which most restructuring often fails. And not at all to say the structure doesn't, but structure exists for a mission and to support a certain kind of work. And we, far too often, say this agency and that agency ought to work together and, damn it, we're going to make it by jamming them together. Then we wonder why people force themselves out of that kind of situation.

It's the same thing that agencies do that most of us would do when we're trying to be forced into trying to do things that we don't want to.

MR. KETTL: I think I agree with that, but you be the judge. I'd tend to come -- I'd tend to come at the issue this way: First of all, if the mission is export promotion, how well is the U.S. government now performing that mission? In my judgment, judged by results, not terribly well. There are lots of countries that are doing a much better job than we are at, you know, at exporting what they're good at producing.

Then the next question is: why are we underperforming? One answer might be that we need, you know, we collectively in both the private and public sectors need consciousness-raising as to the importance of exports. Well, that might be right, but that's not exactly the way our competitors approach the issue. They think they need a real institutional focus on export promotion as well as there's a very high priority on it at the political level. I think that's right, and then the question is, the question and third step in the argument, is our current

institutional structure or set of structures at the federal government level well designed for the purpose of increasing if not maximizing U.S. exports?

It's hard to resist the conclusion that the answer to that is in the negative. Then you have Jeff Zients question, namely, would the -- would the benefits of structural change in export promotion institutions at the federal level significantly outweigh the costs of making those changes. Given the stakes, I think the answer to that question is very likely to be yes, assuming that it's politically feasible to do so. If it's a fool's errand, then don't start on it.

But I think in the area of exports, there is a pretty board-based political agreement at this point that it's one of the very few avenues available for us for getting out of the economic morass that we're now in. And we would be fools not to take it seriously. The president himself has said double exports in the next five years.

Now, I note with interest that the only five-year period during which we doubled exports in my lifetime is a period during which the dollar plunged in the 1970s against both the yen and the deutsche mark. And that suggests that in addition to whatever structural changes may end up getting recommended and adopted pushing a little bit harder on the Chinese and a few others to help us devalue the dollar, to put it bluntly, might not be a bad strategy. But, you know, stay tuned.

MS. BINDER: In the back, if you could identify yourself.

MR. RIGAR: All right, Bill Rigar with HHS. I'm wondering, given that we have federal agencies that are monopolies and that they operate under inflexible if not somewhat

dysfunctional personnel rules, what incentives can be put into place in order to improve their performance.

MR. GALSTON: I'll give you a very -- I'll give you a very brief answer to that question and then turn it over to Don for the real answer.

My brief answer is I agree with Don that public sector managers go to work every day asking themselves how can they make their institution or their piece of it work better. That's entirely consistent with my experience.

Another thing that's entirely consistent with my experience is that managers in the public sector are like Gulliver, tied down by a million Lilliputian courts. It is darn near impossible for public sector managers to make good on their good intentions. Why? Because improvement requires flexibility, and, as you rightly suggested, layer after layer after layer of increasingly detailed rules governing structure, governing work, governing everything is the enemy of performance improvement.

Now, everybody understands why these rules were put in place, but nobody ever asks whether rules that were put in place 50 years ago might need to be revised or have even become outmoded. Nobody asks whether rules that were put in place to solve a particular political problem or to ward off a particular political risk are still necessary. You know, it's as though think of rules as training wheels. Nobody ever asks when the training wheels could be taken off and the vehicle would still move ahead quite smoothly without falling over.

So my short answer to your question is there is basically no way consistent. If you hold current rules constant, there is essentially zero degree of freedom for public managers.

MR. KETTL: On that happy note let me take that and raise you one, which is that not only what you're saying is true but we've got to look carefully at the human capital system we have in government, or the human capital nonsystem. Without a careful effort to try to make sure we have the right people in the right places with the right skills for the jobs to be done -- all of which you've said, Bill, will only be compounded -- but given the fact that I'm an optimist, I can't let it go solely at that.

This gets back to, I think the potential that some of these performance systems have, and recognize first that this -- the opportunities for performance management rank below some of these other kinds of constraints we've been talking about. And I think we have to recognize that and not say, oh, we're going to launch these performance improvements and therefore the world's going to be so much better. And then we end up having trouble with it and we can't understand why. That's why, for starters.

But given those constraints, the ability to be able for an agency manager to come to work and be able to understand what it is that he or she's trying to do, to have some sense of whether or not it's actually happening to have information displayed in a way that's transparent, in a way that creates some kind of opportunity for public discourse about whether or not what's happening is what we have in mind is likely on the margin to make a difference. And given the fact that when you deal with enterprises as large as the federal government, marginal improvements are nontrivial, it's worth a shot.

And in fact there's a lot of evidence around in Social Security, and the Department of Veterans Affairs, and a series of other agencies where a focus on that kind of

effort produced some significant improvement is reason enough to try to make some investments. But the idea to think that we can wave a magis wand from the White House, wave a magic wand from OBM and somehow transform things through the performance system is to miss both the reality of the constraints that Bill's talked about and also the biggest potential that performance management can really contribute.

SPEAKER: Okay, I think that we're about out of time on this session, but I want to thank Sarah and Bill and Don for sharing their view with us, so please join me in -- (applause).

In a few minutes we're going to start with Shelley Metzenbaum of OMB, but we have a lunch for you set up. It's right out in the hallway, it's a buffet lunch, so just get your food. You can bring the food back in. This will be a working lunch so we'll reassemble in 10 minutes, and Shelley Metzenbaum will be with us then.

(Recess)

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/s/Carleton J. Anderson, III

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