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Improving Government Performance:

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MR. WEST: I am Darrell West, vice president of Governance Studies and director of the Center for Technology Innovation at the Brookings Institution and I'd like to welcome you to this panel discussion on improving government performance, and we are webcasting this panel live, and we also have a CSPAN broadcast. We've set up a Twitter hashtag at #USInnovation, so people can either post questions or make comments through that hashtag.

Those of you who are here this morning for the panels heard a lot of complaints about government. In fact, one speaker even raised the issue of horse manure which I thought was an advertisement for our panel on improving government performance, but obviously there have been great criticisms about the inefficiency and the costliness of the public sector. Many feel that government gets in the way of economic development. Nearly everyone agrees that we need to think differently about the role of government and the political process.

Our Center for Technology Innovation this morning put out a paper entitled "Smart Policy: Building an Innovation Based Economy." We propose a number of different ways in which we could use technology to improve education, health care, and government performance, so if you didn't get a copy when you came in, there are copies out in the hallway outside the auditorium.

In this particular session we're going to discuss how our political leaders can better address the problems that we face. In particular, we're going to look at ways we can get Congress, the White House, and federal agencies to perform at a higher level. What are the new ideas to change the manner in which government functions? Are there responsibilities that can be transferred to other levels of government, the private sector, or non-governmental organizations?

To help us understand the benefits and barriers to government performance we have brought together an outstanding set of speakers. To my immediate right is Phil Knight who's the chairman and co-founder of Nike, Incorporated. In 1964, Phil and his former University of Oregon track coach, Bill Bowerman, founded what was then called Blue Ribbon Sports, which was later named Nike after the Greek winged goddess of victory. And Phil, I like the optimism of that name. Great choice there. The first line of Nike debuted in 1972, but there are two things that you might not know about Phil. That before Blue Ribbon Sports, Phil was a certified public accountant. Is that really true?

MR. KNIGHT: True.

MR. WEST: With Price, Waterhouse, Coopers. I think most people didn't know that. And even more shocking, I didn't know this. He was also an assistant professor of business administration at Portland

State University. That is amazing.

Robert Taubman is president and CEO of Taubman Centers, Incorporated. He has headed Taubman Centers since the company's initial public offering in 1992. He serves as a member of the board of directors of Comerica, Incorporated and Sotheby's Holdings. He also has served as a director of the Real Estate Roundtable in Washington, D.C. and serves on the board of the Beaumont Hospital in Detroit and some other non-profit organizations.

Elaine Kamarck is a senior fellow and director of our Management and Leadership Initiative Program here at Brookings. Previously she taught at the Harvard Kennedy School. In the 1980s, Elaine was a principal founder of the New Democrat Movement that helped elect President Clinton. From 1993 to 1997 she served in the White House where she oversaw the National Performance Review also known as reinventing government, so we're coming up on the 20-year anniversary of that. Her research includes management, 21st Century government, government reform and innovation, and she is the author of *The End of Government...As we Know It*, implementation of the 21st century, and also a book on primary politics and the election process.

So, Phil, I want to start with you. You have tremendous experience in the private sector. What do you see as the government

impediments that keep businesses from growing faster and creating jobs?

MR. KNIGHT: Oh, how long we got?

MR. WEST: Plenty of time. As long as you need.

MR. KNIGHT: Well, first of all, I'll point out that Nike was not only the Greek goddess of victory. It's a missile that goes really fast. That the bad news about me coming to a Brookings meeting for me is that it's a five-hour airplane flight. The good news is that it's a five-hour airplane flight; that I get to sit at 40,000 feet and think. And thinking on the way over here, I said government performance, Elaine and Darrell are really expert in that and I am not. That I've never spent any time in government, which is good for me and for government, and really, am not expert in that.

But the word performance, performance is sort of where we live. We make products that if they have any reason for being, allow people to perform better, and that's been part of our DNA and culture from the very beginning. That our mission statement is to provide products that inspire and provide pride, innovation, and inspiration for every athlete in the world, and if you have a body, you're an athlete. So, performance is very important to us.

That we've been number one in our industry for about a quarter of a century, through generations of managers and managements, and the key thing, I think, during that period is culture. And the older I get,

the more important culture is to me and to the company's performance and to other company's performances. And I would say that the culture in government today is very unhealthy. And culture is made up of lots of different parts, lots of different people, lots of different actions, so I would certainly say that both sides of the aisle contribute to this unhealthy culture.

And there's lots of things that have gotten in the way of or provided handicaps for Nike doing business in the world. The Dodd-Frank has a whistle-blower provision that took 2 years for our person in charge of interpreting that, who is a graduate of Harvard Business School, to explain to us what it meant. And he finally said that even though we were quite proud of the implementation of whistle-blower things for our own company; we have code of conduct. We have a handbook. For every new employee we have a class on the subject, and we've never had a whistle-blower incident. In spite of all that, with the Dodd-Frank implementation, we would have to add \$3 million in expenses to make sure we had standing in court if there was ever a whistle-blower incident. So, that's \$3 million that we took out that we could have invested in people, could have invested in jobs, could have invested in research, could have done a lot of different things with. So, there's one.

The second one is that there's another provision, which we

didn't find out about until November. If I can get this one right: The Conflict Minerals Reporting Requirement. Conflict minerals apply to gold, tin, tungsten, tantalum, made in the Democratic Republic of Congo. What the hell does that have to do with shoes and clothes? Well, we have a fuel ban) that has metal in it that applies, and we have a golf driver that has metal in it that applies, so we have to report every year to make sure that those metal pieces did not come from Congo. So, how in the hell do we figure that out because it goes from a wholesaler to an exporter to an importer to an agent to a distributor? There's probably eight or nine layers between those small amounts that we have to do, but we have to take a couple valuable employees a couple months a year to trace down where these metals come from.

There's, going clear back to Sarbanes-Oxley, requiring the CEO to spend 16 straight hours reviewing financial procedures in his company. Any CEO worth his salt already knows that without spending those 16 hours.

And then what Bob McDonald talked about today and said it much better than I will. In fact, maybe if you have it on tape we'd show it, but is tax policy and trade policy. Obviously, as the recession hits the world, trade policy gets more difficult and we have troubles getting products into two of our most fast-growing markets in Argentina and

Brazil, which we could use some government help in keeping those markets open.

And of course the big one, tax policy, is that we have the highest corporate tax rate in the world, so that Mark Parker, who is now the CEO of the company, and for a young whippersnapper of 55, he's doing a great job. But he sits every year when he sets the budget, and he has to decide where the last dollar of investment goes, and where it generates the last dollar of profit. So he can get a dollar of profit in the United States for which 60 cents goes down to the ultimate shareholder, or he can get that dollar of profit in Timbuktu from which 75 cents comes to the average shareholder. So, any global company can maneuver around them. Proctor and Gamble does that, I'm sure, better than anybody, and we'll be just fine with that, but the American economy suffers from that kind of a situation. So, those are some of the handicaps and those are some of the things that contribute to the culture that I think is not receptive right now to innovation and those sorts of things, and I'm sure I'll get to talk about that later, and turn it around over to you.

MR. WEST: Okay. Bobby, you have developed shopping malls across the country including your new City Creek Center in Salt Lake City. What has been your experience with government?

MR. TAUBMAN: Complicated. As Phil talked about the

culture of government really is, I mean, if it's not broken, it's certainly misguided. For a company to be successful you absolutely have to have a strong culture, and I think we sort of argue at times what the purpose of government it, and it's really trying to sort of understand what that purpose is that the constituents are always pulling themselves apart at because the agenda moves so much as you talk through a process.

I mean, you mention Dodd-Frank. You mention Sarbanes-Oxley. Sarbanes-Oxley, which does take maybe that 16 hours and everything else. At least it was about 100 pages and people understood what its purpose was. It was after some terrible abuses that occurred in the economy, and it got done, and it was implemented over a relatively short period of time.

You look at Dodd-Frank. Dodd-Frank's 2,000 pages. Ask anybody that has read this thing up and down, they don't understand what it is, and there's so many interpretations, they'd still have to be -- they still have to happen that -- government doesn't have a clue how to regulate it. And eventually you've got 7-, 8,000 banks out there and everybody says, "Well, it's good. There's going to be some consolidation." But that consolidation may not be good. At the end of the day the small community banks will get consolidated because they can't understand Dodd-Frank ever, and they can't afford it if they can actually understand it.

Those are the people that are lending the small businesses and rural communities and small communities, and it will largely go away because the larger consolidated banks will have less interest. So, you have to be careful what you wrought when you start down that path. It all comes back to, really, what is the purpose?

Now, we're in the shopping center world, and as Darrell said, we just opened a shopping center in downtown Salt Lake City, Utah. It's the first large shopping center of our kind that we've built with department store anchors and the like that have opened since 2006. So, this project's creating several thousand jobs. It's created a huge investment. That's just the retail portion, several thousand. But the full project, which is \$2-1/2 to \$3 billion has created tens of thousands of jobs, both construction and permanent jobs in an urban core, so I mean it's fantastic.

But the entitlement process that we had to go through, and obviously entitlement processes are necessary in many ways to make sure that things are done in an appropriate way, in a safe way, in a way that helps the environment, a way that helps the economy and the local community and all of the above, but we've been in entitlement processes around the country that have taken over 20 years. So, if you think about projects, and we're in one right now that I won't name exactly where it is, but it's been over 20 years. We have a project down in Tampa, Florida

that took us 21 years to open, so it's now the most successful shopping center in that region. It's created at least 3- to 4,000 permanent jobs. A huge spinoff and a huge catalyst for all kinds of growth, but why should it take us 21 years to do something that's really good? And I think that's the problem.

Regulation is necessary, but regulation has to have its place. There has to be a balance, and sort of determining the size of government a lot of people have said should be the people's will, but it doesn't feel that way. And bigger's not always better. And the idea of a faster and smarter government, I said earlier is really sort of like an oxymoron. It doesn't feel that way. It almost feels like we should outsource certain pieces of the government.

I mean, Canada, as an example. They've approved budgets. They've actually met the budgets. They've actually balanced their budget. They actually have an immigration policy. They have certain things we've done. Maybe we should outsource certain of our -- take back the democracy, maybe in 10 years. Just outsource it for a period of time. It's just we can't set a budget. If you had a business, you'd go out of business if you can't set a budget every year. I mean, it's ridiculous, but we can't do it.

And we've all talked about polarization, but from my view,

the performance of government is not high, and that's disappointing because I do think we have the greatest country in the world, and I think the earlier panel talked about the balance sheet being broken, management not being good, and I think that's really something to keep in our minds.

MR. WEST: Okay, Elaine, you sought to reinvent government in the 1990s through the Clinton administration. Twenty years later, how do you see the issue of government performance?

MS. KAMARCK: Well, I think that in the 1990s there were things that we instituted that are now standard operating procedure in government, so the use of performance metrics is standard throughout the government. It is a move in the direction of trying to measure performance. I think it's had great effect within the Executive branch.

I think Congress has steadfastly ignored this entire phenomenon because they like what they like, and they don't like what they don't like, and they don't want to get confused by performance metrics. So, I think there's been a sort of limited impact of the Government Performance and Results Act, which has established performance metrics throughout the government.

Information technology has made the most impact. In the '90s, in Clinton's first term the IRS had spent \$4 billion on failed

information technology programs. Part of the federal government's problem with information technology had to do with the fact that it had legacy systems. If it wasn't for the U.S. Department of Defense and the Social Security Administration, we wouldn't have the Internet. That's where it came from, so there was sort of an unusual situation there, unique to any place in the world. And I think, actually, between the Bush administration and especially the Obama administration, there's actually been great leaps forward in terms of transactional use of the Internet. People file their taxes online. This goes off year after year with relatively no problems. Those two things have been good advantages.

I think the major failing over the last 20 years, and it really goes back beyond that, is that because we were in a sort of anti-government mode for much of that time, then we had at least until the last election a very ascendant conservative feeling in the country, we started to do government not through government, and I think what my two colleagues are reflecting is that we began to implement policy through regulation and through the tax system as opposed to taking on policy head on. So, your example, Phil, about the Congo -- okay, look. Clearly that place is a mess. Clearly, with every --

MR. KNIGHT: No argument.

MS. KAMARCK: -- every good intention people in the

Congress wanted to make a stance, but doing it that way as opposed through a more direct, straight-on diplomatic endeavor? So, we see this all over the place in the area of regulation and in the area of tax expenditures. A government that has been for 20 to 30 years now making policy through directions that are not intended to do that. The net result is we have a tax code where corporate taxes are way too high. We're not competitive. We have a tax code that creates a whole bunch of incentives and disincentives for corporations that are not related to growth, that are related to lowering the tax bill, again, because we were doing government through the tax system as opposed to doing government.

We have a regulatory system that seeks to do policy through regulations on companies. It's kind of crazy. Okay? That's not how these things work the best.

Finally, let me say something about culture because I think your culture point is well taken. And to understand the culture of much of at least the regulatory part of the government, I want to talk about a female pharmacologist, 1957, named Frances Oldham Kelsey. Probably nobody here knows who she is. Well, she was the scientist, the pharmacologist, at the Food and Drug Administration who refused to approved thalidomide for sale in the United States to pregnant women. Now, at this point it was used all through the world and there were tests in

the U.S., so there were thalidomide babies here in the U.S. President Kennedy gave her an award for her steadfastness on this, and every year the FDA gives out the Kelsey Award.

So, the culture of the regulatory part of the government, particularly in places like FDA, or really at the SEC, any place, is to not be the one that approves thalidomide. And that culture is so strong in many of these agencies that it ends up creating a kind of morass that is not necessarily helpful to government and not necessarily helpful to business, but I do think it's important for business to understand that cultural dimension to the regulatory side of the government because that, again, exerts a very powerful influence on behavior.

With that said, there are lots of other things to talk about in terms of government performance, but I thought that since my colleagues brought up the regulatory side, I would start with the regulatory side, and then we can move into other issues.

MR. TAUBMAN: But what happens is that you take that example. You take policy -- ends up, as you said, being created through regulation because it gets slipped in the back door and then these agencies take over that have these cultures of not doing wrong.

MS. KAMARCK: Yep.

MR. TAUBMAN: And it sort of chews up the policy --

MS. KAMARCK: Absolutely.

MR. TAUBMAN: -- and it creates, in essence, something that ends up with the metal example that he has in the Congo.

MS. KAMARCK: Yes, absolutely.

MR. WEST: And it creates a problem that we don't have a culture of innovation in the public sector that we generally see in the private sector.

So, Phil, I want to come back to you. You've thought a lot about management and ways to improve private sector performance. What do you think government can do to manage itself better?

MR. KNIGHT: Well, as I said, that ain't my area of expertise, but I'm a proud trustee at the Brookings, at least until this panel is over (Laughter), but I have a great, great faith that they could come up with things to help improve government and including in the next hundred days.

My question goes like this, really, which in some ways the question has to be answered first, and I'm reminded, almost haunted, in the last two hours of that airplane flight, so you may not want to have me on a panel or have the panel on the west coast afterwards, but 15 years ago when Mark Hatfield retired I asked him to go to lunch. Mark Hatfield was a Republican Senator who for 30 years, and before that he was 8

years the governor of the state of Oregon. He was a revered figure in the state of Oregon, and he worked brilliantly across the aisle between parties, so much so that his nickname was St. Mark. And that I went to lunch with him and said that I had come to the position that I thought I could help the state that I loved. How would he recommend that I go about that? And the first thing that he said was something that I not do. He said don't bother working with the government of the city of Portland. He says, "It is so dysfunctional. It's just a complete waste of time."

Now there's a certain irony, obviously, that now 15 years later Bruce Katz is trying to make Portland, Oregon an innovation hub, and I will say this: if he succeeds, it's a better trick than turning water into wine. (Laughter) We may have to refer to Bruce Katz as Jesús Katz. But he may be able to do that, but I would submit that Mark Hatfield was certainly right for 15 years, and that's my concern for the environment that we have. And again, I think it crosses both sides of the aisle, the environment we have now. Brookings can come up with some really good solutions. I have confidence in that. I don't have confidence that they'll be received in a way that makes them effective.

MR. WEST: Okay, Bobbie. Your ideas on improving government performance? Like if we made you czar for a week, what changes would you make?

MR. TAUBMAN: Well, first I'd look to private industry because I really do think performance-based cultures that we talked about are critical and there's just so much inefficiency in government, but I do think there's examples at the state level, and I'll go to my state in Michigan and mention a few things of things that can be done. Grand Rapids, which is a city on the west side of Michigan, and Livonia which is in southeastern Michigan, have created an initiative called the Virtual City. So, in the Virtual City, even though we're on opposite sides of the state, they actually collaborate on delivering services like information technology, accounting, payroll processing, health care pooling. And Grand Rapids has also done the same thing with Flint and Lansing to try to combine income tax processing and payment systems. We have to find more efficiencies, and it was a private initiative that suggested that this get done, and it finally got done.

If you think about Michigan, Michigan is about 10 million people today. If you think about the city of Manhattan, it's a little over 8 million people. Manhattan has one fire department, one police department, one school district. It has one of everything, basically, that leads 8 million people. We have 10 million people. We have 550 public districts. We have 83 different counties. We believe in Michigan we could save at least \$600 million a year just in combining those into one police

department, one fire department. Think about that in 50 states. Think about how much inefficacy there is throughout the country. So, creating a virtual city, creating a lot more efficiency at the state government I think would be tremendously important.

We have something in Kalamazoo, Michigan. Again, a private-public partnership that really was created by private industry, a few donors there that had an idea. They wanted to keep people in Kalamazoo, which is a relatively small town. There's a state university there called Western Michigan University, and they wanted to encourage people not only to stay in high school but to actually go to college and actually find better employment nearby and go to local schools, go to local colleges. It had lots of sort of a virtual chain in the thought, so in 2005 these private donors put up the money. It's called the Kalamazoo Promise, and they guarantee that anybody that went to a public high school in Kalamazoo would, in fact, have a full ride in college. And since they've done this they've had thousands of kids now go to college that would have never gone to college. It's improved property values. It's improved by 20 percent the number of students that are actually staying in school to finish to get that senior year of high school. It's created much more stability in the market. It's increased enrollment in Western Michigan and the other colleges, the community colleges and the other in that

community. But these are the kinds of sort of private sector initiatives that the public needs to embrace and not sort of push away from, and we have to find efficiencies in government because it is so wasteful. When you look at that we are the biggest tax collector in the world, and we can't balance a budget, it just doesn't make any sense to me.

MR. WEST: Okay, Elaine. You actually were a government performance czar before that term came into vogue. What can we do to improve government performance?

MS. KAMARCK: Well, there's a lot of things. There's a long list of things, but let me start with taxes, which keeps coming up. Twenty years ago we had this kind of weird idea, and the idea was why do Americans have to fill out several different tax returns? In fact, all the information on them is being centrally located. How come the government can't just send them a postcard saying "You paid this many taxes. You owe this much. Is that okay with you?" The vast majority of Americans fill out the 1040EZ. They don't have elaborate deductions. I think the people on this panel probably couldn't fill out that form, but I think that most Americans --

MR. WEST: (off mic)

MS. KAMARCK: Not a chance. Most Americans can. And at the time, the answer was the incompatibility of the information

technology systems. Well, interestingly enough, we've come a long way, baby, and we can, in fact, do amazing things with information technology, and one of the things that we're talking about in Massachusetts is coming to the IRS -- I'm on the Governor's Innovation Council -- and coming to the IRS and saying why don't we try the integration of our federal, state, and local taxes in an information technology setting, which for the vast majority of taxpayers who file easy, simple, straightforward taxes would simply get rid of the need to file a tax return and allow them to, in fact, get a postcard from the government stating where they are. That was a sort of pie in the sky idea 20 years ago. I think the information technology systems are here that we can start doing that. And let's face it, most Americans, until they hit Medicare age, don't have much to do with the federal government other than paying their taxes.

I think the second thing that we could do to improve performance is in the regulatory arena. The technology is simply quickly outpacing the regulatory structures that exist. My favorite one is the FDA, but I think there's instances from fracking and the coming natural gas boom. But think about this. We have been developing for half a century -- we have a regulatory schema that is designed to approve one-size-fits-all drugs. Okay? I get a sore throat, I get penicillin. You all get penicillin. Penicillin is approved for everyone. Well, where's the frontier of science?

The frontier of science is on bioengineered drugs, et cetera, where, in fact, in the future we will each get a unique drug that is bioengineered for us.

Okay?

How on earth does that old regulatory system move to accommodate the new one? This is extremely difficult, and of course they're bound by the systems, right? They're bound by their history as they all are, and this is becoming extremely difficult in area after area, and of course, business, particularly the cutting-edge innovative businesses, they're constantly frustrated. Look, we could grow. We could get so much bigger. We could bring in so much more money. We could create so many more jobs, and yet the regulatory apparatus is simply not built to deal with the rate of technological change of the 21st century. So, I think that would be the second way we could improve performance.

The third way would be to take performance seriously. As I say, the government is now up to its ears in performance metrics. When I was having to be an advocate for this 20 years ago when it was a brand new idea, I said, "This is our profit and loss statement. This is our P&L -- is the metrics that we establish for this agency." The problem is while we're up to our ears in them, nobody takes them seriously. They are not used. They are not used to make anyone accountable, and so wasteful things go on in the Pentagon, and if you're on a certain side of the political

spectrum, you completely ignore that. You don't want to see it. You don't want to hear about it. You're doing this. Wasteful things may go on at HHS. If you're on the other side of the aisle, you don't want to hear about it. So, these have not been used to create the kind of accountability that would, in fact, improve performance. And part of that is just the politics has overwhelmed the system of metrics.

Now, interestingly enough, they are being used in internal management in the government, and I think to some good avail, but they're not being used to get the kind of accountability that you guys have to stand up to from your profit and loss statements from your quarterly reports. They're not being used with that level of accountability, and that would be the third thing I'd say we should really look at. Where are we with this performance revolution, and how can we make it have more teeth?

MR. WEST: So, I'd like to throw out kind of a question for everyone on the panel, and anybody who wants to respond can jump in. Is it time to rethink federalism and return some of the current federal responsibilities to the state and local levels, or to the private sector? And if you think that, do you have any candidates in terms of either specific agencies where their functions could be returned or specific functions of government?

MR. KNIGHT: May I interrupt? Just go back to your deal and God bless you for trying to simplify the tax reform and having that as a goal over 20 years ago. It ain't working. And that's the problem. Well intentioned and really, probably, extremely well done, and yet here we are 20 years later. It's worse than ever and then no hope over the next 5 years that it will get better. I would bet there's nobody in this room that fills out his or her own tax return, and my own tax return (laughter), and I'm guilty if I make a mistake on that return with no standard of materiality. I can't tell you what's in there at all. And that's just one of the problems, but my point is not that we have a tax problem. My point is that you set as a goal simplifying it, and here we are 20 years later and it's worse than ever, and that's what's the problem.

MS. KAMARCK: And it goes back to my initial point. It's because in that 20 years we have done policy through, in a roundabout way, we've made policy through tax reform. That's why when people are talking about tax reform, which I hope will be one of the things we get on the agenda, it's been a move forward that people have suddenly discovered the amount of money there are in tax expenditures because what's happened is that we have been doing policy through tax policy as opposed to taking on policy straight on. And that has added to the complexity of the tax code. That's added to people's unhappiness with the

tax code, and it is not good government. I mean, it's ineffective government because it's, in fact, round-about government.

MR. TAUBMAN: Well, let me jump on that for a minute because, again, policy? What does it lead to? So, in the early '80s, I'm head of the Real Estate Roundtable. We talked about that earlier, so we'll just talk about a little specific thing in real estate. It's called FIRTPA, the Foreign Investment Real Property Tax Act. It was put in place in the early 1980s. Why? Because the Japanese, at that time, were the biggest guys in the world at the time, buying everything up, and suddenly they bought Pebble Beach, and they bought Rockefeller Center and people said, "Oh, my God, they're going to buy America." (Laughter) So, there was this xenophobia that came over to the United States, and we had to stop people -- you could still buy all the General Electric if you wanted, but you couldn't buy real estate assets anymore. So, they were prevented from owning more than 49.9 percent of real estate assets.

So, the guy who created the bill in the Senate, actually a few years later went back and said, "This is crazy." And actually got it passed in the Senate. It fell apart in the House in 1986, so since then it's been sitting there. Now, both sides of the aisle, okay, and the White House have in the last 3 years in multiple occasions said at least part of this should be repealed. This is crazy. It doesn't even have a lot of scoring

when you go to OMB. It's just got a little bit of scoring, but it's just sitting there. And you've got literally tens of billions of dollars -- we have this year in real estate \$350 billion worth of real estate that is coming up for refinancing. A lot of it's still under water, and it doesn't have an equity home. So, there's at least \$50 to \$75 billion sitting out there instantly if we just repealed a piece of this.

So, you've got the House on both sides of the aisle. You've got the Senate on both side of the aisle. You've got the White House. You've got the Treasury Department. Everybody's lined up to do something, but they can't do anything. Why? Because tax reform might come in the next 5 years. So, it's just the perilization of government in this incredibly polarized environment. It's very disappointing.

MS. KAMARCK: It is very disappointing.

MR. WEST: Okay, why don't we open the floor to questions from the audience? We have a question over here. I think we have microphones someplace, but if not you can go ahead, Hugh, with your question.

MR. GRINDSTAT: One of the senators that's about to retire

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MR. WEST: Actually, we have a microphone that's coming over for you right now.

MR. GRINDSTAFF: Hugh Grindstaff. One of the senators that's about to retire says, "I can't wait until I get into lobbying." Who writes the tax laws? Congress. So, even P&G, they had -- in 1997 there was a thing called the Morris Rule that got them out of \$2 billion worth of taxes. So, it's the Congress that really needs to be straightened out. How do we straighten Congress out to really writing effective tax laws? I mean that's a big question because it's the lobbying of the people who -- we used to say it was a cottage industry here. Lobbying is a mansion industry here, and it's a -- how do we get around the lobbyists?

MR. WEST: Okay, good question. Congress and lobbyists.

MS. KAMARCK: Well, I can't say that this is an easy -- you've obviously asked the \$64,000 question here which is about a fraction of what a good tax lobbyist would make in a year. I think that the only thing we can do is go back to, say, sometimes it happens. And sometimes you get an alignment of some pretty good leaders, and they see that they all stand to gain from doing something together.

The last time that happened was 1986. The tax bill, it was Senator Packwood. It was Congressman Rostenkowski, and it was President Reagan. And they, in fact, got rid of a lot of very distorting elements of the tax code which people were -- I mean, dentists were buying empty shopping centers in the middle of the desert, and it was a

crazy time. That was the last time we did a big tax reform bill, and there are people who think that if we can get past all the posturing with this fiscal cliff and stuff like that that the time has come for another moving together on a major tax bill, and because there's so much obsolescence. There's so much to complain about.

The Business Roundtable has been out there leading the charge and saying, "Look, this thing's crazy." Our corporate tax rate is now the highest in the world, putting us in a pretty uncompetitive position, so again, I almost never say this, but this does come down to leadership and this does come down to three people. The President, somebody in the Senate, and somebody in the House, being willing to put aside all the special interests, lock the lobbyists out of the room, and come up with a tax bill. People know what should be in it. Right? We know that there's a lot of junk that's gotten into the tax bill, but it really does take that kind of moment to happen. It did happen once before in our lifetimes, and maybe it will happen again. And I'm hoping maybe even this year or next year.

MR. WEST: Are you optimistic?

MS. KAMARCK: I actually am. Only because what's happened in the discussion about the deficit is that it's opened up a discussion about all the things that are impeding growth. Right? And impeding innovation. It has, in fact, brought these issues, these crazy tax

expenditures, these crazy provisions in the tax code. It has brought them up in a way that it hasn't been brought up after a decade of wars and terrorism and where people were thinking about other things. So, would I bet the house on it? No, okay, but I am more optimistic than I would have been even 2 years ago.

MR. WEST: Hope springs eternal.

MS. KAMARCK: Hope springs eternal. Yes.

MR. WEST: Phil, go ahead.

MR. KNIGHT: I would just say that my concern is what I said before is that Washington, D.C. has become Portland, Oregon. In the 95 year history of Brookings, for me, the proudest moment was at the end of World War II when they wrote the paper which ultimately became the Marshall Plan. And I was thinking again at the end of my flight, I says, "If Brookings came up with a Marshall Plan for government today, would it be accepted?" And I have a hard time getting to yes.

MR. WEST: Elaine has actually done some research on the history of the Marshall Plan.

MS. KAMARCK: I have.

MR. WEST: Do you want to comment on that?

MS. KAMARCK: I'll just give one plug. I have a book coming out that's called *How Change Happens: Success and Failure in*

American Policy. And it starts with the Marshall Plan. Starts with how in a very unlikely situation, right, a President, Harry Truman, who as about as unpopular as you can imagine, a Congress that was led by Republicans that was ascendant, a country that was sick to death of Europe and sick to death of having anything to do with Europe, how they passed the Marshall Plan. And that's the opening to the book. And what it shows is that, I mean, the '86 tax bill is in the book and the Goldwater-Nichols bill, a lot of significant legislation. It shows that there's no magic formula for change. That change is a really complex phenomenon.

You have situations where incumbent Presidents of one party make a great bipartisan deal with the other party, as did George Bush in 2006 on immigration, and guess what? They all fall flat on their face and they fail. So, this isn't easy. It's not bipartisanship or polarization. Right? It's a complex interaction, and a lot of it is the public getting to a place where they're demanding change, and I think one of the things we do have now is a public that's quite sick and tired of Washington, and quite sick and tired of the absence of progress. And how members take that, put it through their heads and come up with solutions, I think, is going to be very interesting. But I do think it's possible because I do think change is possible.

MR. WEST: And we also have a fiscal crisis that may force

action.

MS. KAMARCK: Well, that's what forcing everything. See? The prospect of these deficits for decades to come is forcing a different mindset. Nothing focuses the mind like death, right? (Laughter) And so, whether you're in an agency now and you're looking at a sequester, or no matter where you are, there's a different kind of focus than there has been in -- listen. Let's face it. We've gone through -- I keep going back 20 years because that's when I was in the government, but at the end of the Clinton administration we had peace and prosperity. Okay? Then we had 911 and war. Well, that ate up a good decade, not to mention adding to the deficits. And then we had a gargantuan recession and fiscal crisis. Right? So, we now are maybe getting a little bit back to normal, and people are looking at this structure and the legacy of the last two decades with these enormous deficits and saying, "Okay, what do we do about this going forward?" and that's where I think you get the potential for change.

MR. WEST: Ron Williams on the aisle has a question, right behind you.

MR. WILLIAMS: The question is really based on my business career, and what you learn in business is that once an organization is created, it wants to live. And once it lives, it wants to grow. And that organizations also can have a way of becoming their own

customer, and in business it just doesn't work because there's no revenue in being your own customer. So, the question really is a sunset question, which is what happens if we can develop ways to sunset organization's regulations that require a review of is the original problem, which is often a very legitimate problem they're created to solve? Does it still exist? Does it require the same solution?

The second question or comment is around risk, and I am always reminded of a letter I keep framed I got from a state regulator that shall go nameless. It was a letter of non-disapproval. (Laughter)

MS. KAMARCK: Yeah. Typical, right?

MR. WILLIAMS: And the whole question of government and regulations are set up to avoid any potential risk, and the world simply isn't that neat and tidy, and I think that's another important area because given the authority and responsibility, people appropriately say, "How do I carry it out?" Those would be just a few comments and questions.

MR. WEST: Great questions. Panelists?

MR. KNIGHT: Risk is endemic in business, and you don't have gain without risk, so I think the same thing is to some extent true in government, but in government you don't get paid for taking any risk. And I think that is part of the problem. It's not a performance-based result. It's not a performance-based sort of direction. The only performance you get

is if you did whatever the policy of the moment is, and you don't take any other risks. So, I think it is a conundrum, and I'm not sure what a good answer is. And I love your idea of figuring out how to sunset an agency or two, because you're totally right everything you said. You start an entity. The entity is meant to grow because all the people have incentives to make it grow, and then it starts feeding itself and the beast becomes even bigger. And in government, it just never goes away, so I mean I completely agree with your point of view.

The other thing is that on your risk and that accountability - that sunsetting these things. The other thing that government has a problem with is the pace of the world today. In business, it's going like a son of a bitch, and that government is not equipped to deal with the speed that's going on, so you have all of those things out there in this moment right now that, thank goodness, we have these two experts to figure all of that out because it's a tough puzzle.

MR. WEST: So, Elaine, on the risk question and the speed question, I'm wondering if your idea on performance metrics is a way to have governments be held accountable in ways that matter, and whether data analytics is a way to incorporate real-time information that can be used to improve government decision-making, to respond to Phil's speed question.

MS. KAMARCK: Yes, let me separate out two pieces of government because we always lump it all together. Right? There's government that actually does things. Okay. So, the Social Security Administration declares people eligible for their retirement. They process their payments, et cetera. I would put Social Security up against any insurance company in the country in terms of the efficiency with which they do their job, and also in terms of the loss of revenue that they sustain. They're actually quite good this, and have historically been quite good at this.

So, there are pieces of government that actually do things, and a lot of them are quite good. I think where government has a bigger problem is in the area of regulation and in the area of taxation because there they get into this absolutely no-risk mentality, so the Federal Aviation Administration, it's not tolerable for them to have two airplane crashes a year. The public will not tolerate that. The public wants no crashes. Ironically, by the way, the FAA which we did re-invent in the '90s, has just overseen 10 years of no major crashes in the United States. The United States is the safest place to fly in the world bar none. And you talk to people at FAA, and it's not a question of assessing risk. Their goal is zero risk.

Talk to the 32 families who had family members die from the

meningitis that they got from those faulty steroid shots. Right? They don't want a little bit of risk in drug compounding things. They want zero risk, so a lot of what happens in government is that there isn't the tolerance for any risk, and therefore there's the overcompensation going in the other direction, building elaborate systems, et cetera, and sometimes they're justified. Sometimes they're not.

There's a wonderful book from the 1990s I would recommend to any of you. It's called *In Pursuit of Absolute Integrity: How Government Regulation Makes Government Less Effective*. And there they're dealing with another kind of regulation which is the kind of regulation to get rid of corruption, a sort of corruption control. And again, there the idea is zero corruption. Well, in fact, what they show in the book is that a zero-corruption architecture, in fact, ends up not having zero corruption and ends up being quite costly, whereas if you were to say, well, we would set a risk level at X percent to be lost, and then fire people, you'd probably do a lot better. So, it works in two ways. There's the no risk, but the no-risk mentality finds itself in every piece of the government.

So, I did a lot of work over the last 20 years with developing countries, and the big difference between the OECD countries and the developing world is that in the OECD countries we are drowning in regulation. Our government is killing us. They're killing innovation,

slowing down business, et cetera, because why? Our governments are, by and large, very honest. In the developing world, they're drowning in corruption. They have no regulation, and any regulation they do have is instantly corrupted, and they're so corrupt that, in fact, they've got the opposite problem. They can't grow. So, it's both out of regulation, but two very different kinds of outcomes and has led to two very different kinds of conversations.

MR. WEST: So, it's interesting. You mention corruption. In Rhode Island where I used to live, corruption was viewed by politicians as just a tip for good service on their part. (Laughter)

MR. KNIGHT: Just to the point about government doing things and corruption, just one data point because we're talking about performance of government at all levels, city, state, all the way through. So, in the city of Detroit schools, they went into bankruptcy. So, a financial manager came in from the state, a guy named Robert Bob. First thing he did was make everybody pick up their payroll check. Guess what? There were 3,000 people that didn't pick up their check. Some of them had been picking up the check in the mail for 25 years. So again, you think that for 25 years somebody wouldn't have to pick up a check in a business environment? I mean, it wouldn't happen. So, when you see that kind of waste and fraud, it's inexcusable.

MS. KAMARCK: Absolutely.

MR. KNIGHT: But it exists at many levels.

MS. KAMARCK: By the way, in the developing world, that is absolutely the norm at every level of government. They're called -- there's even a term. They're called ghost workers.

MR. WEST: Right. Okay, in the very back there's a gentleman with his hand up.

SPEAKER: Thank you, sir. Thanks to the panelists today. Thank you, Strobe, for the forum today. I wanted to part pretty much from the overview of the discussion and invite, I guess, a commercial from the chairman. A mutual friend of ours, a long-time mentor of mine, and one among your board of directors has on his living room table top a statue of Nike of (inaudible) and whenever I pointed out -- we'd get into a conversation about cultural icons, cultural totems, Brookings being a vanguard of discussion about foreign affairs. Could you, Mr. Knight, talk about Nike's role as an icon of American soft power and as a global economic force?

MR. KNIGHT: (Laughter) That's easy. (Laughter) Well, I mean, I don't think that we really think of ourselves that way. I mean, if we do the things that we do well, that may well develop, but, I mean, obviously that we try to run all facets of the business including marketing

and marketing in an effective way, and we've associated ourselves with a lot of real heroes, and sometimes that's backfired. I mean, you've seen that today with Lance Armstrong's confession, I guess, or near confession, whatever. We're going to find out on Oprah tomorrow night, I guess.

But we just try to do what we do and do it well, and sometimes it works. I don't think we ever set out to be the things that you talked about, and we just try to do the right things and do them well.

MR. WEST: Okay, other questions? Here, the mayor.

MR. FISCHER: Just an observation. To become more efficient, you've got to be concerned about being efficient. Right? In government. (Laughter)

SPEAKER: No more efficient without being efficient.

MR. FISCHER: Really dumb, but there's not that many business people in elected office, and business people are not the answer. I'm a businessperson and entrepreneur. I just happen to be mayor right now. Most people who hold elected office do not have training in efficiency or high performance, so they don't understand how to run an organization in a world-class way. So, we've got a fundamental disconnect over people that are overseeing large bureaucracies and hundreds of billions of dollars in resources without understanding the basic principles of total quality or leadership or management. And for

some reason as a country, we allow that to go on, so that's a fundamental issue.

But government is a service business, and people want to act like it's something we can't understand, but at its core, we deliver services. So, there are cities out there -- I'm sorry Portland's not one of them -- that government is delivered most intimately at the city level. Right? People know their mayors and they hold them accountable and box their ears. When you come to Washington, it's so detached from Main Street, it's really hard to hold anybody accountable.

So, there's cities out there and Louisville, for instance, we have a process called Louistat. Each one of our divisions, their goal is to be in the top quartile of performance. Our goal as a city is to be the best city government in the country. We benchmark who's the best at what each process is. We measure that. There's a gap if we're not the best. We have teams that work on that, so it's not complicated. It's just really hard to scale, but ultimately you have to have people interested in this really boring thing of management and leadership, and we get so distracted, especially in Washington, that we don't even talk about that type of thing. So, there's hope I would say and most of it when you look around the country is at the local level, and I'm just giving unabashed plug for cities and metro areas.

MR. WEST: But not all the agencies can be in the top 25 percent. That's like Lake Wobegone. All the people are above average.

SPEAKER: Let's give everybody a try and go from there. I'll satisfy --

MS. KAMARCK: Can I just say that the performance management revolution, which is now about 20 years old, where it has had its biggest impact is at the city level, and you've seen real transformations in New York, in Baltimore, in Louisville. You've really seen a great deal of progress, and I think part of it is that what cities do is easy to figure out and to measure. You can figure out if that street is clean, if that pot hole has been filled, et cetera, so it lends itself in a very clear-cut way and the public can understand it.

Performance management in Washington is an extremely difficult task. In the army, you can measure the performance of the general's motor vehicle division. Right? You can do that. But how do you measure going to the State Department? How do you measure the effectiveness of the Policy and Planning Office? Right? I mean, it took us, what, 60 years to figure out that George Kennan was a genius? Right? I mean, you can't have a metric for the Policy and Planning Office that's at all meaningful, so lots of things in the federal government are not comparable. There literally are no benchmarks for them in the world.

There are no benchmarks for the United States military for much of what it does, and that is, by the way, 50 percent, almost, of our discretionary budget. There are no benchmarks, so the performance revolution which has been so powerful at the city level, somewhat powerful at the state level, is most problematic at the federal level, and I keep running up against this just year after year after year.

MR. KNIGHT: One of the last Brooking meetings, I think Strobe or somebody made the comment that to be a good mayor or a good governor or a good President or good cabinet officer, you have to not only be a good manager, you have to be a good politician. And I thought about that. I really never kind of thought of it that way, but you really do need to be both, and those are almost conflicting skill sets. There are really not many people that do both very well, and that I think's part of the problem.

SPEAKER: On that --

MR. TAUBMAN: I know, for instance, you're a hell of a politician. Think about that.

MR. KNIGHT: Who are you talking to?

MR. TAUBMAN: You. (Laughter) So, here's why. All right, so as a business guy --

MR. KNIGHT: Are you willing to accept (inaudible)?

MR. TAUBMAN: Oh, no. Think about it this way. You are

selling ideas. You have competition. You have complex business settings that you deal in. That's what the political world is. I used to sell to Coca-Cola and AMPM and all this, and so selling a complicated idea or product is not really that much different than selling a political idea. So, I would say there's a lot of similarity to that, and so you can be a good businessperson and a good elected official at the same time.

MR. WEST: Yea, it's hard to do.

MR. KNIGHT: I would make one other comment. I go to Asia a lot because we have a business over there and I get asked, and I know they're not perfect. Okay? The central government does make decisions. You get asked a lot. You have this two-party system and it's in such gridlock, yet we can make decisions, and we train our people to get to the point where they make decisions. Before they get to the point where they're actually in a senior leadership position that they've gone through a whole bunch of steps, and that central government is trying to get to the point of sort of bridging the politician and the businessman by putting that person in a managerial post. They don't just elect somebody and then that person now is ordained to create policy that then gets written in and has no relationship to reality. So, there's more -- I'll say there's more pragmatisms.

Now, I know all the differences. It's a developing country.

It's the second largest GDP, but it makes decisions and it gets things done, maybe not perfectly as we would all like in the democracy that we live in, but it does have trained people moving into these jobs, and I think that many of our leaders don't have both hats that they can wear.

MR. WEST: I think we have time for one more question. There's a gentleman right over here with his hand up, and then after that we'll invite Glen up for closing comments.

SPEAKER: Just a follow up to the question earlier about lobbyists wrong. I wonder what is wrong of big money in company financing in terms of contributing ultimately to more complexity in taxes, regulation, and may I call it legal corruption in government?

MS. KAMARCK: I think it's pretty easy. I think that whenever you allow your tax code to get extremely complex, whenever you allow your regulatory to get extremely complex, and you're doing all sorts of things through your regulatory system that you're not supposed to be doing, you then create an interest, and any interest creates lobbyists. And so, what you have then is a reinforcing function of dysfunction, if you will, because you get somebody is making money off it. For everything that's irritating Phil, somebody is making money by using that tax break in a certain way by manipulating that, et cetera. So, the role of lobbyists is particularly pernicious in that the most money to be made is not in these

great big lofty ideas of policy. The most money to be made is down there in the weeds of the tax and the regulatory system, and complexity is the friend of lobbyists.

MR. TAUBMAN: Absolutely.

MR. WEST: Great. Okay. Maybe we have time for one more question since that was such a clear and succinct answer.

MR. MITCHELL: Thanks very much. I'm Garrett Mitchell and I write the Mitchell Report, and I want to pose a framework for how to think about this question it seems to me we're being asked to think about and address today which is innovation and government and how it can help America be more competitive, and it seems to me that in order to do that, and Mr. Knight talked early on about culture, Mr. Taubman also talked about it, is for people who have not had experience in government to understand the complexity, the insidiousness of the competing cultures that exist in government, and if we stay here in Washington, D.C., there are Article I people and Article II people and they don't care much about each other. There are in Article I, the Senate and the House have about the same amount of love for each other that the Executive branch and the Congress do. Within both of those houses, the Republicans and the Democrats spend most of their time trying to eat each other's hearts out.

And then when you go to the executive agencies, you have

an interesting management challenge which is you have X number of people at work in an agency, 2 percent of whom are revolving-door types. They come in and they go out. And 98 percent are people who are there for a lifetime.

So, it seems to me when we talk about how to drive innovation through government, it needs to be done with a realistic perspective about the nature of the animal itself and that animal has become more complicated and more complex because of our divisions in this country.

But I think I just want to say that anything that can be done to increase the interaction between people who have not had experience in government with those who have really makes a difference. Like Elaine, I had, at the state government level -- I ran a re-inventing government process for 3 years, and it was remarkable to see the difference in perspectives from the private sector people that we involved in that re-inventing government process when it was over. They were different people. They thought differently about government, and I guess I could say question marks, so what do you think about that, but I don't really know if there's a question there except to say that the complexity of the cultures is enormously important and often overlooked when we get in this subject, it seems to me.

MR. KNIGHT: But there has to be an openness to a business culture and a businessperson being in that environment. It has to be respected. It can't just be, with due respect to Brookings and everybody else in these environments. It just can't be people in and out of government and the academic world. And that tends to reinforce each other because the academic and the governmental roles and the people that focus on policy and that love it and that are brilliant at it, they don't really care about business. And when business shows up in the room, they're very articulate about why it doesn't make sense. And so, we have leadership that really doesn't -- I mean, it's my personal view. We have a leadership that does not really care as much about the business being in the room and their opinion as much as what you've just described.

MR. WEST: Okay. We're out of time but I want to thank Phil, Bobby, and Elaine for sharing your views with us. And Phil, we still want you to be a trustee after this panel. (Applause) And I want to introduce Glenn Hutchins to make closing remarks.

MR. HUTCHINS: So, that panel makes me want to rush out to a Taubman mall and buy some Nike gear. (Laughter) About a hundred years ago in 1916, Robert Brookings founded this institution. He had come to Washington, I think, Strobe, at the invitation of Woodrow Wilson, to explore bringing business-like approaches to government. After his

service with Wilson, he founded this place.

MR. TALBOT: Republican coming to work for a Democrat.

MR. HUTCHINS: Republican coming to work for a Democrat in a non-partisan way. Not bipartisan, but non-partisan. And part of his vision was to combine business-like practices with first rate analytics and world-class scholars like Martin and Darrell and Bruce who have been with us, and Elaine, to create policies that could have real-world impact for problems that were important to our country, and I think if you think about what we did today, we served Mr. Brookings' mission quite well. First panel explored how business and government could work together at the local level on advance manufacturing to address our unemployment crisis and restore middle class jobs in our country. Second panel looked at the fiscal situation, talked about how a non-partisan group of business people has come together in the tradition of Robert Brookings to put pressure on our politicians to do the right thing, to restore confidence, create the conditions under which our economy can grow, and this most recent panel has focused, I think, quite acutely on how one "manages" or brings business management type of practices and disciplines to government.

So, as I say good-bye to you all today, I will assure you that Robert Brookings will rest in peace tonight. As with the knowledge that

nearly a hundred years later, this institution is navigating the course which he charted for us. Thank you. (Applause)

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