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STATEMENT OF
ELMER B. STAATS
COMPTROLLER GENERAL OF THE UNITED STATES
BEFORE THE
SENATE COMMITTEE ON GOVERNMENT OPERATIONS

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ON
SENATE BILLS (S. 4130 AND S. 4212)
CONCERNED WITH ESTABLISHING
A NATIONAL PRODUCTIVITY CENTER

Mr. Chairman and Members of the Committee:

C2-3 I would like to commend Senator Nunn and Senator Percy for their foresight in introducing S. 4130 and S. 4212 to strengthen National-level leadership aimed at improving public and private sector productivity.

I have been interested in the concept of such a center or institute since Dr. C. Jackson Grayson, Jr., Dean of the School of Business Administration at SMU began advocating this idea some time ago. I am also pleased to be able to appear today in company with Mr. Dwight Ink, Deputy Administrator, General Services Administration; Mr. Bernard Rosen, Executive Director, Civil Service Commission; and Mr. Jerome Mark, Assistant Commissioner, Bureau of Labor Statistics. The group of us have been actively collaborating on Federal sector productivity projects since 1970. As you know, we described this effort as a group just a year ago before the Subcommittee on Priorities and Economy in Government of the Joint Economic Committee.

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Title I of both bills states with clarity the concern over the current decline in national productivity, and the critical importance of authoritative policies and programs to improve productivity in order (1) to attack the problems of inflation, and (2) to enhance our international competitiveness, job security, and quality of work life. Both bills make a case for a stronger national commitment and expert leadership--and are responsive to President Ford's statements on this matter in his October 8 address to Congress. I hope that these hearings will lay the foundation for designing the stronger statutory underpinning which is needed.

I would like to divide my brief comments into two parts:

- A. First, a discussion of why GAO is concerned with improving national productivity.
- B. Second, a review of the objectives of the two bills and our suggestions on them for the Committee's consideration.

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A. WHY GAO IS CONCERNED WITH IMPROVING NATIONAL PRODUCTIVITY

GAO has a major interest in Federal productivity both because of its regular audit programs and because of the Joint Federal Project which I will discuss later. To a lesser degree, we have contacts with performance improvement programs at State and local levels. We are also brought into contact with many private sector organizations which conduct research and development and furnish goods and services to Governmental agencies.

1. Federal sector productivity programs. Since 1970 we have been a partner with the Office of Management and Budget, Civil Service Commission, the Bureau of Labor Statistics, and, more recently, the General Services Administration in fostering efforts to measure and enhance productivity of Federal activities.

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Today we have an ongoing program in which participating agencies collaborate in an annual review of the productivity trends of about 200 Federal activities having 850 measurable outputs. These organizations employ 1.7 million personnel, representing the output of about two-thirds of all Federal employees.

Annually, we examine the trends and report to the President and the Congress on observed causes of productivity gains and losses, and any actions which are recommended to foster improved productivity. In summary, we found last year an overall gain in productivity averaging over 1.5 percent per annum, but about half of the activities reviewed had shown productivity gains, and about half had declined. We have learned that no organization stands still and that progress demands constant attention to such improvements--the keys to which are long-range planning, introduction of better systems, installation of modern equipment, more effective work organization and techniques for improving employee skills, job satisfaction, and incentives.

The Federal Government has much to learn from its own experience and by systematic study of the practices of non-Federal organizations.

The present National Commission on Productivity and Work Quality has been very supportive, but a still stronger national organization would be of value in advancing these efforts.

2. Productivity improvements in State and local governments.

We have been encouraged to see the rapid growth in interest in productivity improvement among these jurisdictions, and the strong leadership taken by their national associations. We believe the stress given to improved State and local programs by the bills you are considering is very appropriate. This is particularly true of S.4130 with its concept of productivity centers at the State level.

There are some 39,000 jurisdictions, many of which perform similar if not identical functions. One out of every six American workers is employed by the public sector. Government purchases of goods and services now absorb about 22 percent of the gross national product, and their payrolls are close to \$150 billion. This is the second fastest growing segment of our economy, following services in general.

Many elements of the Federal structure are making some contribution to State and local government improvements although in a very loosely-coordinated fashion. This includes, for example:

- Grant programs of the National Science Foundation.

- Grants by the Department of Housing and Urban Development under the Section 8 Program.
- The excellent work of the Civil Service Commission under the Intergovernmental Personnel Act; and various other technical assistance programs. For example, GAO is working with local jurisdictions to introduce the use of performance auditing techniques and has participated in productivity improvement demonstrations and projects.

The National Commission on Productivity has from the outset of its work given priority attention to public sector productivity problems, and has made a valuable contribution in selected areas. But I am sure we all agree that the efforts I have mentioned are but a small beginning toward exploiting the vast opportunities for improved economy and effectiveness in State and local government operations.

3. Federal interest in manufacturing technology. The Procurement Commission found expenditures on procurement by the Government agencies to be \$57.5 billion in FY 1972--with DOD, AEC, and NASA being the largest purchasers of goods and services from the private sector.

Since manufacturing technology is an important factor in future costs of complex systems, GAO is currently examining programs in the United States and other countries concerned with advancing the state

of the art, particularly in the manufacture of parts and components produced in medium and small lots--with special attention to the potential for further application of computers to design and manufacturing processes. The increased output may be five times as great as under today's methods.

While the United States has long been the pioneer in the development of these advanced tools, and probably enjoys the highest state of technological achievement in the world today, we have not established a focal point to oversee research into advanced manufacturing technology--either for the Government's account or for the private sector. Other nations are beginning to do this--notably West Germany and Japan. We understand that there is a proposed government program in Japan to develop an unmanned manufacturing facility by about the mid-1980's, at a reported cost of \$100 million. It is of interest that this is a joint public and private effort. There is no comparable national program in the United States, although there are ten or more Federal agencies with an interest in this subject. Hence, this is another illustration of the need for a strongly-established productivity leadership at the national level.

B. GAO VIEWS ON PROPOSALS TO ESTABLISH
A NATIONAL PRODUCTIVITY CENTER

In studying the proposals contained in S.4130 and S.4212, the first question which naturally occurs is: "Why is a new organizational approach needed; that is, why does the present National Commission not meet these requirements?"

The history of the National Commission on Productivity since its creation in June 1970 has been one of constant struggle to maintain its identity and even minimal financial support for its efforts. In FY 1973 it had an extremely modest budget of \$2.5 million and a 20-member staff. In 1974 it was terminated and absorbed by the Cost of Living Council. Recently it has been reborn with a \$2 million budget, but still with a very small staff. Such a stop-and-go existence coupled with a low financial base is not conducive to maintaining a consistent and effective program.

It is thus clear that the time has come for a stronger commitment by the Congress and the Executive Branch. We believe that both of the proposed bills have many important points which should be incorporated in defining a proper charter for a more vigorous National Productivity Program. Without singling out individual points from each bill, we can perhaps be most helpful at this time by (1) stressing those principles which we believe are most relevant to establishing a revised organization, and (2) making several suggestions for the Committee's consideration in the final drafting of a bill to be considered in the next session--which we understand to be your objective today.

1. Key principles suggested for a National Productivity Center and Leadership Program.

- a. First, we believe that the Center should be an independent agency replacing the existing Productivity Commission and with direct and authoritative access to the Director of OMB,

the Council of Economic Advisers, and to the heads of principal departments and agencies concerned. These agencies include: Commerce, Labor, Treasury, HUD, HEW, NSF, DOD, NASA, AEC, CSC, GSA, and GAO.

- b. We favor a small, but fully-empowered Board of Directors, appointed by the President, confirmed by the Senate. Its membership as envisioned in S. 4212 should be representative of private sector management, public sector management, and labor. I also urge that a top educator be included so as to form a knowledgeable team of those who will perceive the opportunities for advancing national productivity and will understand how to apply the results of the Center's work.
- c. Third, the charter of mission of the Center should be broadly stated. In this connection, we are particularly impressed with the definitions and mission goals presented in S. 4212 which stress the importance of equal emphasis on programs and projects designed to improve the utilization of technology on the one hand--and those designed to achieve improvement in the utilization of human resources and work quality, on the other hand.

The statute should be free of regulatory detail-- such as the requirement for productivity impact statements. We believe such matters should be left for later determination rather than be part of the statute.

- d. Fourth, the Center should have a life expectancy and adequate funding for at least 5 years so that it can be held accountable for bringing to fruition long leadtime efforts which are frequently the nature of productivity research and application.
- e. And finally, the Center's professional staff should be the most capable that can be brought together for this period. The suggested limitation of 100, we believe, is too restrictive--although we readily agree that maximum use should be made of available funds for grants and contracts.

As to the functions of the Center, both bills spell out in excellent fashion the role of the Center as (1) a constructive coordinator and expert catalyst to identify and disseminate knowledge, (2) as the sponsor of education and training activities, and (3) as the sponsor and financier of demonstration projects and research projects of the type which other organizations are unable to support due to the lead time, financial requirements, etc. We also applaud the emphasis given to proper documentation and measurement of results which is stressed.

2. Some suggestions for further consideration by the Committee.

The principal need which is not specifically addressed in either bill is development of a corps of personnel with leadership and analytical skills, who would be motivated to work on projects to improve performance in productivity--particularly, in the public sector. This would include engineers, behavioral scientists, public administrators, management generalists, etc.

At a recent conference of public sector leaders, which canvassed the prime opportunities for productivity improvement in the public sector, the need for "capacity building" as described above was stressed as perhaps the single most important requirement for significant improvements. Thus, it is believed that the charter for the new Center should acknowledge the importance of determining the need for managerial and analytical skills--working with universities, as well as public and private organizations--and charge the Center with a responsibility for fostering programs to produce such trained personnel.

Another frequently-discussed issue is the extent to which and when, the Center should be divorced from Federal management and primary reliance on Federal financing. Dr. Grayson, in a recent lecture to the GAO staff, offered the goal of making such a Center self-supporting after 5 years. It is of interest that in Japan, over 90 percent of the support of the Japan Productivity Center is from private sources--and in Germany, Israel, and Norway, private support is reported to be one-third to one-half. This poses a challenge to us. One alternative would be for the National Productivity Center to underwrite the establishment of both

National- and State-level Centers which would become self-supporting. Such authority is envisioned for the States in S. 4130. (Of course regional and perhaps metropolitan centers should not be precluded in appropriate situations.)

Another alternative which has been proposed is to establish the National Productivity Center, at the outset, as a Government corporation in order to give it more independence of the Federal structure, while holding it accountable to Congress and the President. In any event, it would appear wise to authorize and encourage the National Productivity Center to engage in cost-sharing, to require reimbursement for technical assistance not related to research and demonstration projects, and to encourage private financing.

The final suggestion which we have is that further development of productivity measures, and conduct of research into designing better measures, should stress the importance of assessing trends in quality of performance and results of programs, especially in the public sector. Simple productivity indices expressed as "output per unit of input" are essential and must be continued. We must, however, learn how to measure program effectiveness and how to apply appropriate measures of progress against program objectives. We likewise need to continue our search for techniques of measuring employee attitudes and "quality of work" factors.

CONCLUSION

In conclusion, Mr. Chairman, we have, as you can see, a great interest in the subject of these hearings. We would be pleased to

assist the Committee in its efforts to resolve the issues which the hearings have identified leading to further consideration of this subject in the next session of Congress.

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