

DOCUMENT RESUME

07160 - [E2587620]

The Appropriate Federal Roles in Improving National Productivity. September 14, 1978. 21 pp. + enclosure (1 pp.).

Testimony before the House Committee on Banking, Finance and Urban Affairs: Economic Stabilization Subcommittee; by Elmer B. Staats, Comptroller General.

Contact: Office of the Comptroller General.

Organization Concerned: Civil Service Commission; National Center for Productivity and Quality of Working Life.

Congressional Relevance: House Committee on Banking, Finance and Urban Affairs: Economic Stabilization Subcommittee.

Authority: OMB Circular A-11.

In spite of the creation of a National Center for Productivity and Quality of Working Life, the U.S. productivity growth rate has continued to decline in recent years. Federal involvement in improving productivity is important because only the Federal Government is in a position to deal with issues on a national basis and to bring about needed changes. Productivity trends in the public sector are comparable to those in the private sector. Efforts at improving Federal sector productivity should include management incentives which could be provided through proposed civil service reforms. A focal point (probably the Civil Service Commission, or the proposed Office of Personnel Management) is needed for productivity improvement within executive agencies. The Federal Government could aid State and local governments to improve their productivity through Federal grants and through limited management improvement assistance. The Government can set the framework for productivity growth in the private sector through such areas as economic policies, tax laws, regulations, and funds expended to support productivity advances. Government policies could also supply the financial incentives for capital investment in technology which could lead to long-term productivity improvement. The Government must recognize the importance of worker satisfaction in improving productivity. Private sector productivity efforts should be guided by a National Productivity Council consisting of representatives of selected Federal agencies and be co-chaired by the Secretaries of Commerce and Labor. (HTW)

7620

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D. C. 20548

FOR RELEASE ON DELIVERY
EXPECTED AT 10:00 A.M. EDT
THURSDAY, SEPTEMBER 14, 1978

STATEMENT OF
ELMER B. STAATS
COMPTROLLER GENERAL OF THE UNITED STATES
BEFORE THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
SUBCOMMITTEE ON ECONOMIC STABILIZATION
HOUSE OF REPRESENTATIVES
ON
THE APPROPRIATE FEDERAL ROLES
IN
IMPROVING NATIONAL PRODUCTIVITY

Mr. Chairman and Members of the Subcommittee:

We are here today at your request to discuss the Federal roles in improving national productivity and our recent evaluation of the National Center for Productivity and Quality of Working Life.

There has been a great deal of attention paid to the high unemployment and high inflation rates that have plagued our economy in recent years. We at GAO are concerned that policies addressed only to these problems deal with the symptoms and ignore an underlying problem of the U.S. economy; our low rate of productivity growth.

We have testified repeatedly since 1973 before various committees of Congress that the Federal Government must act to improve our national productivity growth rate. Yet, during the intervening years, despite the creation of a National Center for Productivity, our productivity growth rate has continued to decline.

U.S. productivity, as measured by output per staff-hour, increased at an average annual rate of 1.6 percent from 1967 to 1977 in the private business economy. This rate of increase is only half the annual rate of the 3.2 percent experienced between 1947 and 1967. Looking at the manufacturing sector alone, the annual growth rate between 1967 and 1977 has been only 2.1 percent, as compared to about 2.7 percent between 1947 and 1967.

According to the 1977 annual report of the National Center for Productivity and Quality of Working Life, if our National productivity over the past 10 years had increased at the same 3.2 percent annual rate of the previous two decades, output per hour would have been 11 percent higher in 1977--a significant difference. Expressed another way the difference would have meant an additional \$100 billion in terms of real GNP at the 1977 employment level. Therefore, the lag in productivity growth has cost the United States immensely in lost economic growth.

A comparison of U.S. productivity experience to that of

other major industrial countries is even more startling. The United States had the lowest average annual rate of change in manufacturing productivity among six major industrialized nations over the period 1967-1977. The range is from Japan's high of 6.8 percent to our low of 2.3 percent. In our opinion, the future will not be much brighter without immediate positive steps to effect improvement.

There are a number of factors that have contributed to the low U.S. productivity growth and the weakening of the economy in the last decade, ranging from a slowdown in research and development expenditures to changes in labor force composition.

Before appropriate Federal roles can be defined it is important to understand the many ways the Federal Government impacts on most of the major factors affecting productivity growth. The many Federal policies and programs which impact on our productivity growth are complex and occasionally contradictory, and the actions needed to improve the productivity growth rate are only partially understood. However, at least one thing is clear: we can no longer afford to let productivity "take care of itself." This principle is recognized by every other industrial nation--all of which understand the critical role of productivity in meeting their national objectives and all of which have had extensive national programs to promote productivity growth

for many years.

There are many U.S. productivity efforts now underway in the private sector, in State and local governments, and in some areas of the Federal Government. These efforts are worthwhile and deserve support and encouragement but, in themselves, are not adequate. Federal involvement is required because only the Federal Government has the breadth of authority to deal with issues on a national basis and to bring about some of the changes that are needed to correct the downward trend.

A national productivity program should be concerned with and address each sector of the economy. Since there are significant differences in the needs and incentive structures of the public and private sector organizations, I will address the problems and our recommendations for each sector separately. I will conclude my statement with what I believe to be the requirements for an effective Federal productivity program.

THE PUBLIC SECTOR

Before discussing the public sector in detail, I should point out that the trend data for the public sector--Federal, State and local--is quite comparable to that of the private sector. Measures of Federal Government productivity have been developed for about two-thirds of total Federal employment. The system was initially developed in 1973 by a joint GAO/OMB/CSC task force at the request of Senator Proxmire. These measures indicate that Federal productivity has been

increasing about 1.3 percent per year since 1967, or slightly less than the depressed rates of increase in the private sector. The Federal Government, however, represents less than 20 percent of total government employment. The other 80 percent is in State and local governments.

Overall measures of State and local government productivity have not been developed. However, the limited studies which are available indicate that a serious productivity problem exists in these governments. One study suggests that 20 to 28 percent of State and local government expenditure growth between 1967 and 1976 resulted from low productivity.

Federal Sector Productivity

Results of our audit work in the Federal sector show that efficiency or productivity has been a major concern of elected officials for many years, but the lack of proper measures, the lack of incentives for managers and employees to measure and improve productivity, and the lack of management emphasis for a successful productivity program have inhibited productivity improvement in the Federal Government.

The basic problem in fostering measurement and establishing formal productivity programs appears to be a lack of management incentives to do so.

We believe it is imperative that any effort aimed at improving Federal productivity incorporate proper incentives for managers and agencies to help overcome barriers to

productivity improvement. These would include:

- Giving organizations recognition for productivity improvements in the budget process, perhaps by allowing them to share in the savings produced.
- Rewarding managers and employees for productivity improvements within their organizational units. These rewards may take the form of cash awards, special recognition, or bonuses.
- Providing managers with flexibility to manage resources unencumbered by certain personnel constraints and arbitrary controls.

The proposed Civil Service reforms dealing with the need to better relate pay to performance could provide the framework necessary to implement a system of improved incentives.

Also, within the Federal Government, a catalyst is needed to bring about improvement in productivity through problem solving and transferring ideas and technology between agencies, and to provide for a technical assistance capability to the agencies in developing productivity and performance measures. Specifically, this catalyst should:

- Enforce the requirements of OMB Circular No. A-11, "Preparation and Submission of Budget Estimates," concerning the use of

productivity data in support of staffing resources and rewarding agencies demonstrating improvement.

- Systematically study all personnel policies which presently impede productivity improvement and recommend appropriate changes.
- Assume the role of bringing together common agency functions in workshops where productivity improvement ideas can be shared.
- Establish a central technical assistance capability to assist managers in developing measurement systems and productivity improvement programs for their agencies.
- Encourage agencies to identify productivity improvements that can be made through investments in capital equipment.

In commenting on our report on the National Center, the Office of Management and Budget stated that the President had determined that responsibility for productivity improvement within executive agencies should be assigned to the Civil Service Commission (or the proposed Office of Personnel Management).

We agree that either of these organizations could effectively serve as the focal point for internal Federal productivity. This would be consistent with its

assigned responsibilities for managing the Federal work force.

State and Local Government
Productivity

Turning now to State and local government productivity, the Federal Government should have an increased role in State and local productivity improvement for two basic reasons:

- The national economy is strengthened by improvements in the productivity and fiscal prospects of the State-local sector, which accounted for 14.4 percent of GNP in 1976.
- The costs of Federal grant and regulatory programs implemented by State and local governments, which will be over \$85 billion in FY 1979, are directly affected by the efficiency and effectiveness of those governments.

In spite of the potential benefits of productivity improvement to relieve growing fiscal pressures, most State and local governments do not have a significant, comprehensive program to improve the productivity of selected services. More importantly, those local governments with the greatest need for productivity improvement, i.e., governments in fiscal distress, utilize this strategy least. We found that this relative lack of interest in productivity improvement programs was caused by the lack of immediate short-term savings from such programs, and the high expenses often associated with

initiating a productivity improvement program.

There are two strategies which we believe the Federal Government could use to aid State and local governments to improve their productivity: through the Federal grants systems and through limited management improvement assistance.

The Federal grants system, which is expected to fund over 26 percent of State and local budget expenditures in fiscal year 1979, has a major negative impact on State and local productivity because of the various program structures and strictures imposed. This heavy Federal fiscal influence, however, can be restructured to offer positive incentives to State and local governments for productivity improvement.

In the area of management improvement there are a number of important ways in which Federal financial and technical assistance can help by providing

- general management improvement assistance to support productivity efforts,
- research on performance measures which can be used to compare jurisdictions, and
- information on well-developed and tested measurement systems and improvement techniques which are already in use.

In our opinion, a general management improvement program could be developed by strengthening existing programs. For example, the Civil Service Commission's Intergovernmental

Personnel Program already provides both seed money grants and research and development funding to State and local governments for personnel management improvements, including productivity. This program could be enhanced by including general management improvement in its legislative authority.

Our review of the National Center indicated that greater potential also exists for more interagency cooperation and coordination so that

- information on Federal assistance available to State and local governments for management improvement and productivity can be centrally available and disseminated to potential State and local users,
- duplication, missed opportunities or gaps in Federal program coverage to meet State and local needs can be reduced, and
- central direction to existing and planned Federal efforts to reward performance through the grants system can be given.

A stronger focal point could address these needs. Its mission would be to set policy and provide leadership for existing Federal research, demonstration, and capacity building efforts aimed at improving State and local general management and productivity. The focal point would also serve as a broker, reflecting the needs of State and local managers and attempting to change Federal programs and policies

accordingly. Most importantly, a focal point could deal with critical Government-wide issues affecting State and local productivity. The primary emphasis would be to institutionalize within the Federal Government a concern for productivity in the Federal Government's relationship with State and local governments.

In our report on the National Center, we suggested that the Civil Service Commission (Office of Personnel Management) would be the most appropriate location for the State and local productivity focal point. The Commission offers the advantages of organizational stability, familiarity and experience with State and local management improvement through the Intergovernmental Personnel Program, and an overview perspective that would enable it to better handle State and local government productivity problems that cut across existing Federal agency boundaries.

For the Commission to succeed in this role, it must be given clear authority to serve as the lead Federal agency for State and local management and productivity improvement and be given adequate funding to enable it to assume this responsibility.

PRIVATE SECTOR

With regard to the private sector, it seems likely that we shall continue, as in the past, to rely primarily on the profit motive and competition in free markets to stimulate economic progress and productivity growth. However,

as we have stated, the Government plays an important role in setting the framework for private enterprise through such areas as economic policies, tax laws, regulations and funds expended to support productivity advances. While there is much the Federal Government can do to improve private sector productivity through efforts in these areas, the current productivity growth rate indicates that whatever is now being done is not sufficient. In fact, current Federal policies have at times actually undermined U.S. productivity.

In 1975, the Board of Directors of the National Center identified four major factors as being most crucial to private sector productivity improvement. These include

- accelerating technological innovation,
- stimulating capital investment,
- improving government-business relations through regulatory reform, and
- enhancing human resources.

Technology and Capital Investment

Advances in technological innovation, resulting chiefly from organized research and development, contribute significantly to long-term productivity growth through the subsequent application of more efficient equipment and processes. Unfortunately, there has been a relative decline in research and development outlays over the past decade, which will have a negative impact on the rate of productivity growth in the decade ahead. For example:

--Total research and development spending in 1977 is estimated by the National Science Foundation at 2.2 percent of the gross national product compared to 3.0 percent in 1964.

--The United States spends over half of its research dollars in defense efforts, while the bulk of expenditures by other major industrial nations with better productivity records has been in non-defense areas.

--In 1975, private industry employed 5 percent fewer scientists and engineers than it did in 1970.

--The overall U.S. patent balance declined almost 47 percent from 1966 to 1975.

The ability of firms to develop productivity enhancing technology is controlled primarily by the incentives they have (basically financial) to become involved in research and development in order to generate the desired level of technology. However, many believe that the financial incentives that in the past encouraged long-term risk projects no longer exist because of such things as the level of the capital gains tax, environmental and consumer safety standards, and uncertainty over future government regulations. In recent years private sector research and development has concentrated on low-risk, short-term projects directed at improving existing products. Emphasis on longer-term projects that could lead to new products and

processes has decreased. The fact that this situation poses a serious threat to the survival of many businessmen is supported by evidence that equipment and facilities in this country are not being replaced fast enough to keep American industries competitive. The Government, through its tax and regulatory policies, can assist in turning this problem around.

In response to the decline in U.S. technological competitiveness, the President has recently established an interagency committee to conduct a comprehensive review of issues and problems related to industrial innovation and technology. This appears to be a good first step in defining what Government action is needed and in developing a coordinated Government policy. However, because of the long lead time between technological innovation and its impact on productivity, the results of this review must be quickly translated into Government action.

Regulatory Reform

I would like to elaborate further on Government regulations and their impact on private sector productivity. The role of regulation in inhibiting productivity growth is a factor which only the Government can change. More than 72 percent of the firms responding to a GAO survey stated that easing Government restrictions and regulation would be a highly desirable way for the Government to contribute to productivity improvement.

Although improvements in the rulemaking process have been made, the current regulatory decisionmaking environment is not conducive to the open development of new proposals since the affected parties have high personal stakes in the outcome of the process.

A broad base of support could be built for reform proposals if they were endorsed by representatives of interested parties, i.e., regulators, public interest groups, the regulated, and other concerned public and private parties. Such endorsement could be forthcoming if the proposals were jointly developed by those whose support is desired. This process would differ from existing procedures because it would be designed to avoid the adversary environment and time consuming administrative and judicial proceedings that are now involved.

Human Resources

Human resources are the driving force behind changes for productivity improvement. Efforts to meet the expectations of workers for better working conditions and to make more effective use of their ingenuity and creativity represents one of the significant opportunities for productivity improvement.

In a Quality of Employment survey taken by the Labor Department in 1969 and 1972, workers ranked pay high, but they also want other opportunities--to obtain training, use their talents more fully; have greater flexibility in work patterns, education,

leisure, and retirement; have health and safety protection on the job, and exercise greater control over performance of work. Only a small minority expressed dissatisfaction with their jobs.

To achieve the twin objectives of greater productivity and worker satisfaction, a variety of human resources programs have been tested. Those that seem to show the most promise are systems that take into account various aspects of the workplace, including recognition for performance and training, a voice in plans and decisions about how work is to be done, safety and health protection, and appropriate equipment to do the job.

The National Center concentrated on making employers and unions aware of opportunities for improving productivity through the establishment of joint labor-management committees. It functioned effectively as a catalyst in the formation of a number of these committees. Since there seems to be a greater potential for this type of in-plant cooperation than is generally realized, there continues to be a need for the Government to act as a catalyst in this area.

Federal Role in Improving Private Sector Productivity

Given this background, I would like to address what I believe the Federal Government should do to improve the situation.

In our report on the Productivity Center, we recommended that the private sector focal point should be limited to five functions.

- Developing in conjunction with the private sector, periodic needs assessments to determine the nature and extent of private sector productivity problems.
- Operating a productivity clearinghouse to provide national and international data and knowledge on various aspects of productivity.
- Promoting a better understanding of all the factors affecting productivity.
- Interacting with the Joint Economic Committee of the Congress, the Council of Economic Advisers to the President, and the Federal Reserve Board to assess the productivity effect of fiscal, monetary, tax, and regulatory policies on the private sector.
- Encouraging improved labor-management cooperation as a means to improving productivity and quality of working life.

Regardless of where leadership for the private sector productivity effort is located, we believe that it should be guided by a National Productivity Council consisting of representatives of selected Federal agencies having productivity-related missions and be co-chaired by the Secretaries of Commerce and Labor. Such co-chairing will ensure that equal emphasis is given to the views of management and labor, and will

also ensure that quality of working life is considered in efforts undertaken to improve productivity.

The council would, in our view, be charged with (1) developing a national productivity program plan that integrates all Federal policies and programs affecting national productivity and (2) identifying gaps and additional initiatives that need to be taken. This would provide a central focus for the Federal Government in attacking the private sector productivity problem.

There should also be an external advisory group reporting to the council that is made up of representatives from industry, labor, and the general public. The advisory group would suggest to the council particular productivity issues it should address.

REQUIREMENTS FOR AN EFFECTIVE FEDERAL PRODUCTIVITY PROGRAM

In closing, there is an urgent need for Federal involvement through a national productivity program that will foster greater awareness of the productivity problem and create the proper framework for productivity improvement. The specific organizational assignment of functions should be of secondary importance. Our primary concern is that a national program be developed and implemented, with the cooperation of the various sectors of the economy, to harness and direct the many activities and functions of the Federal Government which affect productivity.

Although the National Center was ineffective in carrying out the roles envisioned for it, its experiences have provided the Nation with valuable lessons upon which we can build. From these lessons, we believe there are four key ingredients required to transform the assignment of roles and responsibilities for both the public and private sectors into an effective productivity program. These include:

- A recognized coordination point for all productivity-related programs to prevent overlap and duplication and to identify gaps. The proposed Productivity Council could play this role.
- Development of a Federal productivity perspective on economic, regulatory, tax, budget and grant policies to eliminate or avoid unnecessary barriers to productivity improvement and to identify Government actions that may help bring about improvements.
- Development of program agendas based on periodic needs assessments to determine areas where the Government can help. These agendas, however, must be developed by the Federal Government in conjunction

with the private sector and, where appropriate, State and local governments.

--Designation of recognized productivity focal points for each sector.

In addition to these requirements, we believe organizations being assigned productivity responsibilities must have

--strong Presidential and congressional support for their efforts,

--appropriate funding to match their responsibilities, and

--a clear delineation of goals and objectives that are translated into action plans.

Although declining productivity growth is a serious national issue, it is an issue that lacks a particular constituency and in the past has failed to generate and sustain interest. Without strong support, no productivity effort can hope to be effective. Adequate funding and staffing must be provided agencies assigned productivity responsibilities. Otherwise these functions may be lost within the larger organizations and not be given the priority and attention required.

It is time for this country to face up to the fact that productivity growth must be improved if we are to get inflation under control and maintain our standard of living. America's economic survival may well depend on our ability to achieve this growth. To sustain a national effort of cooperation in reaching

this goal, the Federal Government must assume a leadership role. To date it has not done so.

GAO's involvement and concern with national productivity has by no means ended with the completion of our evaluation of the Center and this testimony. In addition to the many projects we now have ongoing in the productivity areas (listed on the attachment to this statement), we plan to monitor and evaluate the implementation and effectiveness of the productivity program being developed by OMB, and report back to Congress.

- - - - -

This concludes my statement Mr. Chairman. With your permission, I would like to submit a more in-depth discussion of the productivity problem and appropriate Federal roles for the record. We will be pleased to respond to any questions you and other Members of the Subcommittee may have.

PLANNED AND ONGOING GAO PROJECTS ON PRODUCTIVITY

The following is a list of planned and ongoing GAO projects in the area of productivity:

- The Federal role for improving State and local government productivity
- Government regulations and productivity
- Improving the productivity of common Government functions (e.g., payment centers and word processing)
- Comparisons of the productivity activities performed in both the private and public sectors
- The need for and design of a national clearing-house on productivity
- A review of the national measures of productivity as published by the Federal Government
- An analysis of the productivity outlook in the United States
- The impact of the Federal incentives program on productivity
- Promoting productivity improvements in selected industries (e.g., shoe, machine, tools) from an international perspective
- Determining the effect of productivity-enhancing computer technology transfer on U.S. economic growth
- A productivity appraisal of the U.S. Postal Service
- The use of productivity data in the budget process
- Development of productivity appraisal guidelines
- A review of the availability of venture capital and its potential impact on productivity growth