

MEMO TO:

President-Elect Clinton

No. 2

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HOW TO CUT THE FEDERAL BUREAUCRACY

We cannot put people first and create jobs and economic growth without a revolution in government. We must take away power from the entrenched bureaucracies and special interests that dominate Washington....

I will reduce the White House Staff by 25 percent and challenge Congress to do the same....[I will] eliminate 100,000 unnecessary positions in the bureaucracy. I will cut 100,000 federal government positions through attrition....I will require federal managers and workers to achieve a 3 percent across-the-board administrative savings in every federal agency.

Bill Clinton

Putting People First:

A National Economic Strategy for America.

EXECUTIVE SUMMARY

There are few campaign promises that will become due earlier than your pledge to cut 100,000 federal government employee positions. Your commitment to reform—or your lack of it—will be obvious to the American people from the very beginning.

You have apparently modelled your transition and initial legislative strategy on the early days of the Reagan Administration. You would be wise to examine that Administration's strategy on reducing the size of the federal bureaucracy, too, for it offers a tested means to achieve your campaign pledges. That experience, and the lessons from other Administrations, suggests a ten-point action plan for achieving your objectives:

Action 1: institute on Inauguration Day a total freeze on federal hiring (except political appointments), accompanied by a 3 percent across-the-board administrative cut. This is the kind of blunt instrument approach needed if your goal is to be accomplished. Because it allows no exceptions, bureaucratic gaming cannot frustrate the achievement of the bulk of your personnel reduction target, allowing appropriate adjustments to be made later, after most of the targeted savings have been accumulated at the beginning.

Action 2: Demand that Congress eliminate minimum staffing levels in all departments and agencies. A reduction program cannot be effective if large areas of personnel are excepted from its control.

Action 3: In the second phase of personnel reductions, institute a modified freeze. This more flexible hiring freeze should be planned for an unnamed date at least six months in the future, and administered by the Office of Personnel Management. This will allow continued reductions but ones managed in accord with the efficient use of personnel resources.

Action 4: During the modified freeze, reform the Reduction-in-Force (RIF) regulations to give more weight to performance and less to seniority, and to limit bump-and-retreat rights. This change, designed to permit the government to retain its best employees, should be made part of an overall personnel reduction strategy.

Action 5: Reestablish Office of Personnel Management (OPM) monthly accounting of full-time equivalent (FTE) employment. Without accurate data prepared on a regular basis and some agency to oversee progress, the goal of trimming the bureaucracy will soon be forgotten.

Action 6: Demand from Congress the elimination of legislative limits on the number and functions of political appointees, and reduce the Executive Office of the President staff by 25 percent. You will need to maintain and even increase the number of political appointees if the bureaucracy is not to smother reform initiatives. It is political appointees who will determine whether or not the Administration will be successful. But the Executive Office of the President is bloated by its own bureaucracy, and its efficiency is impaired. Fulfilling your pledge to reduce it by 25 percent will give impetus to other agencies and Congress to do likewise, and most important, will make the White House a more effective and efficient decision-making body.

Action 7: Reaffirm your commitment to the career service. A strong core of political appointees still must rely upon a professional civil service to be effective. To achieve its support, you must protect the integrity of the career service by such things as limiting "burrowing in" by political appointees to career positions, and seeking changes in the law to protect the service, including the repeal of the Ramspeck Act.

Action 8: Announce a major privatization and contracting-out initiative, with the responsibility for the initiative transferred from the Office of Management and Budget to the Office of Personnel Management. States and local governments have used privatization extensively to cut costs and improve efficiency. The federal government lags behind the rest of the country in the use of private firms and organizations to perform government opera-

tions. To catch up, it needs a major new initiative that is effectively managed.

Action 9: Modify existing contracting-out rules to provide full-costing of federal government operations when these are compared with private bidders. The bidding process today requires would-be private contractors to factor all overhead costs into bids, yet allows government agencies to exclude many items from their calculations. Loading the dice in this way often deprives the taxpayer of the opportunity for more efficient service.

Action 10: Upgrade the performance appraisal and pay-for-performance systems, and extend performance pay beyond managers to the general work force. Better pay for better performance is at the heart of sound private sector personnel-incentive programs. The opportunity to do this is too limited in a federal sector that needs constant attention to appraisals and resulting rewards to overcome the disincentives of a rule-driven, play-it-safe civil service system.

Opportunities for Reform

If you take prompt and decisive steps such as these, you can make significant headway into cutting the overhead cost of government and toward making the federal work force function more efficiently. The federal bureaucracy is a bloated target for management and budgetary reform. Personnel costs (wages and benefits) equal 15.5 percent of total domestic spending, and other administrative overhead adds 24 percent more, so even minor efficiency gains will translate into big savings. For example, federal retirement alone accounts for 4 percent of the budget. While tougher options are possible, by simply limiting the cost of living increases to the maximum amount of the Social Security cost-of-living-adjustment (COLA) increase, it would be possible to save \$1 billion the first year, and \$20 billion over five years.

Of course, if you really mean to go beyond personnel savings and actually attack the deficit, the Administration of Ronald Reagan could give some additional guidance. After carefully taking out the effects of interest and savings and loan bailout costs, Heritage Foundation scholars Scott Hodge and Robert Rector have shown that the domestic spending Reagan targeted declined from 14.8 percent of gross domestic product to 12.2 percent under his initiatives.¹ Cato Institute scholar Stephen Moore documents that the growth rate of real government spending under Reagan was one-third that of the next closest Administration since World War II. Thus if you are prepared to take serious actions and plan well, there is proof that you can achieve results.

But why, you might ask, should conservatives urge you to learn from the Reagan period, so that you might successfully trim the federal government, allowing you to fulfill your campaign promise and making it more likely that the federal bureaucracy will carry out your policies? For two reasons. The first is that by indicating exactly how you can carry out your campaign pledge, and identifying actions you would have to take if you really do want to cut the bureaucratic overhead of the federal government, the American people will have a checklist on which

¹ Robert Rector and Scott Hodge, "What George Bush is Not Being Told About Federal Spending," Heritage Foundation *Background* No. 886, March 4, 1992, p. 2.

to compare performance with rhetoric. If you are serious—or not—they will be able to tell from your actions.

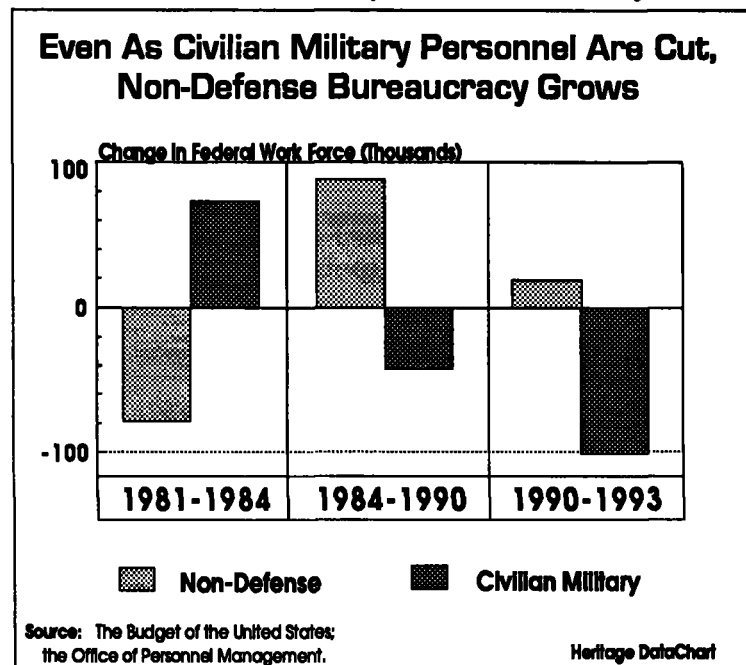
The second reason is that a serious threat to your strategy to reform government will come from inside the federal bureaucracy—as it did when Ronald Reagan came to power. It is the nature of bureaucracy: Pressure will come from those who do not want a lean, efficient government, but simply a large one. And it will come from those who will try to promote the old-style liberal “solutions” through bureaucracy and regulation that were rejected at the ballot box. It is in your interest, as well as the interests of conservatives, to ensure that these forces are not successful through omission. If you pursue these recommendations to make the federal bureaucracy work efficiently for you and these old-liberal policies are still pursued, then you will not be able to blame any failures on bureaucratic intransigence, and the American people will be able to judge fairly that it was the liberal policies that were the problem. And if you do reform the bureaucracy to make it carry out the policies of your White House, that also will provide an efficient executive branch to enable the next conservative Administration to correct the failed liberal policies that were adopted.

LESSONS OF THE REAGAN ADMINISTRATION

The bad news is that cutting 100,000 federal jobs will be difficult. The unions and managerial associations will protest vigorously, the career managers will resist having fewer subordinates to spread the work and build their empires, and the political appointees will try to avoid the hard decisions that will attract unwarranted press attention. The good news is that it can be done—Ronald Reagan showed how.

Then-Governor Reagan promised in the 1980 election to reduce the size of the bureaucracy. Once in office he classified his goal as a decrease in non-defense full-time equivalent (FTE) personnel of 75,000. The accompanying table shows that between 1981 and the end of the first Reagan term in 1984, non-defense federal employment went down by 78,650, thereby exceeding his goal. The decrease in number of employees, the “head count,” actually was 105,484. Significantly, about 90 percent of the decrease had been achieved by the end of the first year. Early, bold, and inflexible action in the form of a total freeze on employment, followed later by a more flexible, managed freeze, allowed the target to be achieved.

It is also important to learn from the shortcomings of Reagan’s second term. By the end of the second term, non-defense employment totals had edged back up nearly to the levels under Jimmy Carter, although defense civilian and military totals had begun a downward trend. The problem was that the energy of the first term had largely dissipated and clear plans and goals were not set, so the natural forces of bureaucratic growth re-asserted themselves. The reductions achieved in the core Great Society agencies generally held firm, but personnel grew in those agencies that received less personal presidential attention.



The Federal Bureacracy: Many Early Non-Defense Personnel Cuts Gave Way to Increases

Agency	1981	1984	1990	1993	81-84	81-93
Agriculture	121,000	108,986	110,755	111,021	-12,014	-9,979
AID	5,616	5,115	4,526	4,454	- 501	- 1,162
Commerce	36,347	32,305	34,838	36,682	- 4,402	+ 335
Corps of Engineers	32,330	28,681	28,239	27,444	- 3,649	- 4,886
Education	6,634	5,025	4,596	5,032	- 1,609	- 1,602
Energy	18,675	16,708	16,815	19,960	- 1,967	+ 1,285
EPA	12,861	11,412	15,155	17,917	- 1,149	+ 5,056
Gen. Services Admin.	32,758	25,572	19,447	19,858	- 7,186	- 12,900
Health and Human Ser.	154,000	136,969	117,817	125,704	-17,031	-28,296
Labor	21,647	18,577	18,050	18,265	- 3,070	- 3,383
NASA	22,727	22,080	23,829	24,947	- 647	+ 2,220
Nuclear Reg. Comm.	3,448	3,441	3,188	3,377	- 7	- 71
HUD	15,703	12,437	13,264	13,837	- 3,266	- 1,866
Interior	81,747	73,245	71,233	74,000	- 8,229	- 7,747
Justice	54,422	58,244	79,082	97,968	+ 3,822	+43,546
Office of Pers. Man.	7,133	5,710	5,702	6,158	- 1,423	- 975
Panama Canal	9,138	8,137	8,293	8,603	- 1,001	- 535
Small Business Admin.	4,704	4,238	5,316	4,637	- 466	- 67
State	22,887	24,139	25,633	26,012	+ 1,252	+ 2,925
Transportation	68,055	61,130	64,863	70,212	- 6,925	+ 2,157
Treasury	124,264	123,155	155,931	161,964	- 1,109	+36,700
Tenn. Valley Authority	44,752	31,952	23,716	23,000	-12,800	-21,752
USIA	7,636	8,167	8,598	8,679	+531	+1,043
Veterans	209,575	218,545	214,040	221,518	+8,970	+11,943
Other	45,587	41,414	43,506	57,382	-4,173	+11,795
Non-defense	1,163,646	1,084,996	1,169,370	1,187,929	-78,650	+24,283
Civilian Military	937,700	1,011,532	969,059	867,772	+73,832	-69,928
Uniformed Military	2,122,002	2,177,717	2,163,364	1,846,923	+55,715	-275,079

Source: The Budget of the United States; the U. S. Office of Personnel Management.

Setting Priorities: What Reagan Did, What Bush Did Not

While the two Reagan terms are instructive in their different ways, so is the Presidency of your immediate predecessor in the White House. George Bush said he, too, would cut the bureaucracy, but he never made clear beforehand what programs were to be targeted, even in the general terms of the second Reagan Administration. Nor did he detail plans specifying how or to what degree this should be accomplished after he entered office. Consequently the domestic bureaucracy under Bush increased 24,283 (actually more if budget sleights of hand are corrected) during his term. Conversely, through congressional pressure and to a great degree against Bush's desires, uniformed military personnel actually went down 275,079 and civilian military employment decreased 69,928.

The important point about the data in the table is the different patterns during the conservative Reagan and more moderate Bush Administrations. There are actually four patterns:

Pattern 1: Reagan and Bush both were tough on foreign aid (AID), government engineering projects (the Corps of Engineers and the Tennessee Valley Authority), Education, the General Services Administration, Health and Human Services, and the Small Business Administration.

Pattern 2: While Reagan was significantly tougher in a second set of agencies — Agriculture, Housing and Urban Development, Interior, Labor, Office of Personnel Management, and the Panama Canal Commission — the Bush Administration held up reasonably well, too.

Pattern 3: Both Administrations went weak in the knees in the face of Justice, Veterans, the State Department, and the United States Information Agency, presumably because of joint Republican support of law and order, veterans, and upholding the flag abroad.

Pattern 4: Where Reagan and Bush differed the most was over regulatory agencies. Bush seemingly could not say no — whether at the Environmental Protection Agency, in major cabinet departments (treasury tax agents — perversely added to the budget as "savings" to increase revenues; and commerce and energy overseers), or in independent ("other") regulatory bodies.²

Thus President Reagan, at least in the first term, cut positions across the non-defense spectrum, faltering only on positions related to crime and America's presence abroad, while Bush let much of domestic government grow without any real overall plan. It is Reagan, then—setting and sticking to his agenda and achieving it the first term before the interests affected coalesced—who provides the best model for a Clinton Administration success in cutting personnel.

² William G. Laffer III and Nancy Bord, "George Bush's Hidden Tax: The Explosion in Regulation," Heritage Foundation *Backgrounders* No. 905, July 10, 1992.

